S. HRG. 99-1030

NOMINATIONS OF KALO A. HINEMAN, KENNETH A. GILLES, KATHLEEN W. LAWRENCE, AND ROBERT W. BEULEY

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

THE NOMINATIONS OF KALO A. HINEMAN, OF KANSAS, TO BE A COMMISSIONER OF THE COMMODITY FUTURES TRADING COMMISSION; KENNETH A. GILLES, OF VIRGINIA, TO BE AN ASSISTANT SECRETARY OF AGRICULTURE; KATHLEEN W. LAWRENCE, OF VIRGINIA, TO BE UNDER SECRETARY OF AGRICULTURE FOR SMALL COMMUNITY AND RURAL DEVELOPMENT; AND ROBERT W. BEULEY, OF VIRGINIA, TO BE INSPECTOR GENERAL, DEPARTMENT OF AGRICULTURE

JUNE 18, 1986

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NOMINATIONS OF KALO A. HINEMAN, KENNETH A. GILLES, KATHLEEN W. LAWRENCE, AND ROBERT W. BEULEY

WEDNESDAY, JUNE 18, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room SR-332, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms, Zorinsky, Leahy, Heflin, and Harkin.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order to consider the nominations of Kalo A. Hineman to be reappointed as Commissioner of the Commodity Futures Trading Commission, and the nominations of Kenneth A. Gilles to serve as Assistant Secretary of Agriculture for Marketing and Inspection Services and as a member of the Commodity Credit Corporation Board of Directors; Kathleen W. Lawrence to serve as Under Secretary of Agriculture for Small Community and Rural Development and as a member of the Commodity Credit Corporation Board of Directors; and Robert W. Beuley to serve as inspector general for USDA.

Since we have four nominees, I suggest that the chairman be brief.

Kalo Hineman has become a fine friend since his initial appointment to the Commission in 1981. He has worked hard to implement the provisions of the 1982 CFTC reauthorization bill which was no small accomplishment, I will say to the majority leader, particularly those provisions dealing with the trading of agricultural options.

All three of our USDA nominees are old hands at the Department and are being promoted because of the good jobs they have done. Dr. Kenneth Gilles has served as the Administrator of the Federal Grain Inspection Service since June 1981. Under his able leadership, the Grain Inspection Service has become a leaner organization, has decreased its dependence on funding from the Federal Treasury, and now raises approximately 85 percent of its operating revenues from user fees.

Mrs. Kathleen Lawrence is well known to the members of this committee, having previously served as Deputy Under Secretary for Small Community and Rural Development and as Deputy Di-

rector of the USDA Office of Rural Policy Development. The Department has made good progress in these areas because of her unflagging leadership. It should be noted that Mrs. Lawrence enjoys the support of a number of agricultural groups as evidenced by the letters we have received on her behalf. Without objection the letters will be made a part of the record.

Robert Beuley currently serves as deputy inspector general at USDA. Prior to returning to USDA in 1985, he served in successive positions of responsibility in the inspector general's offices of the Departments of Commerce and Interior, respectively. He is well qualified to serve as the inspector general for USDA and I certainly look forward to working with him.

I want to welcome all our nominees.

The majority leader is here. Senators Warner and Burdick have some introductions they wish to make. I recognize the majority leader first. He will be followed by Senator Warner and then Senator Burdick.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Thank you, Mr. Chairman. I will just take a minute. It is a pleasure for me to be here this morning to make a few brief remarks. I ask that my statement be made a part of the record.[1]

I have known the Hinemans for a long time. Kalo and his wife are here this morning. It occurred to many of us on this committee that perhaps one way to help the CFTC was to have a real live, hands-on farmer on the CFTC, and with the cooperation of the chairman and the administration, Kalo Hineman received that appointment in 1981.

He is a cattleman and wheat farmer, a veterinarian, a former State legislator and a banker. He has made an enormous contribution as the first and only farmer ever to serve on the CFTC.

He chaired an agricultural options advisory committee and was instrumental in the Commission's early activities to implement a pilot program in exchange traded agricultural options. These instruments have the potential of becoming a valuable risk management tool for the agricultural sector.

The success of that committee prompted Chairman Phillips to expand its mission to other agricultural issues. As chairman of the Agriculture Advisory Committee at the CFTC, Kalo provides a direct link to major farm organizations, the users of commodities, exporters, processors, the cattle, pork, and broiler industries as well as agricultural lenders.

So, I would just indicate as I did in 1981 that Kalo's performance has certainly strengthened the view that many of us held then—we need more hands-on farmers in the Government.

Agriculture is in a state of distress in many, many areas and much of it is due to a lack of confidence on the part of the American farmer in the system. One way to improve that confidence is to have someone who can speak with authority and who knows about

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[1] See p. 41 for the prepared statement of Senator Dole.

the issues and still maintains a background and a direct interest in agriculture.

That has been the strength of Kalo Hineman's role as a member of the Commission. He has done an outstanding job and brings this important perspective to the CFTC on behalf of American agriculture.

So, I am pleased to be here again to recommend to this committee that his nomination for reappointment be confirmed.

The CHAIRMAN. Thank you, Bob.

Senator Warner.

Senator WARNER. I wonder if I might yield to my senior colleague as a courtesy.

The CHAIRMAN. Certainly.

STATEMENT OF HON. QUENTIN N. BURDICK, A U.S. SENATOR FROM NORTH DAKOTA

Senator BURDICK. Mr. Chairman, it is a pleasure for me to introduce Ken Gilles, a candidate to be Assistant Secretary of Agriculture for Marketing and Inspection Services.

I have known Ken for many years as a friend and as a man of stature in agriculture, both in North Dakota and nationally. For the past 5 years, Ken has served ably as Administrator of the Federal Grain Inspection Service. He brought to the job a long and successful career as a grain researcher and professor of agriculture.

He has combined his technical expertise with a natural ability for management to oversee the crucial Government services. He will bring those same talents to his new post as Assistant Secretary.

Let me acquaint you briefly with his background and some of his accomplishments. Ken was born in Minneapolis and graduated from the University of Minnesota with a graduate training in chemical engineering and a Ph.D. in agricultural biochemistry.

I might add for the benefit of the committee that I also attended the University of Minnesota, although he majored in agriculture, and I majored in football. [Laughter.]

After a stint with the Navy in World War II, he worked as a research engineer in Minnesota. He taught biochemistry at the University of Minnesota, becoming a research fellow in cereal hydrocarbonates.

By 1952, he was working in the food research for General Mills, but the academic world called him back, and that is when he had the good sense to move to North Dakota. He became the chairman of the Department of Cereal Chemistry and Technology at North Dakota State University in Fargo.

He was responsible for the spurt of growth in ag research programs at NDSU, directing programs to produce new and vastly improved grains and oil seeds.

In sum, Ken knows grain and he knows government. His long record of excellence in industry, academia, and public service will continue as he moves to his new post in USDA. I commend him wholeheartedly to this committee.

The CHAIRMAN. Senator, thank you very much.

Senator Warner.

STATEMENT OF HON. JOHN WARNER, A U.S. SENATOR FROM VIRGINIA

Senator WARNER. Thank you, Mr. Chairman.

I am privileged to have the opportunity to appear before the committee today to introduce not one but two fine Virginians who have been nominated for key posts in the U.S. Department of Agriculture.

It is my great pleasure to support the nominations of Mrs. Kathleen Lawrence to be Under Secretary of Agriculture for Small Community and Rural Development, and of Robert W. Beuley to be inspector general of the U.S. Department of Agriculture.

I have had the opportunity to know and work closely with Kathleen for many years, both politically and professionally, and I strongly support her nomination. I know her to be a dedicated public servant and experienced manager. She has been most effective as Acting Under Secretary since May 22 of this year where she has been responsible for the oversight and policy development of the Farmers Home Administration, the Rural Electrification Administration, and the Federal Crop Insurance Corporation.

Kathleen represents the U.S. Department of Agriculture on the Economic Policy Cabinet Council's working group on Federal credit policy. She successfully argued before that group for the additional $700 million for Farmers Home Administration direct loans this spring.

She further played a major role in the drafting and passage of the Farm Credit Act Amendments of 1985 that restructured the Farm Credit System.

These are but a few of her many accomplishments. However, I would be remiss if I did not mention the fact of which the committee is well aware, and that is Kathleen's experience during the 8 months of 1985 when the Farmers Home Administration had no Administrator. She effectively ran that agency during the most difficult spring lending season in its history.

I have long admired her professional manner and I know she will be a strong presence at the USDA. I am pleased to join the many national farm organizations who also support the nomination of Mrs. Kathleen Lawrence. I know that the significance of her support by these groups is not lost on this distinguished committee. I hope that it will be the pleasure of this fine committee to join us in supporting her nomination.

I am pleased to welcome her husband, Andy Lawrence, and their son Drew. It is also a pleasure to welcome her father, Bill Wilson, here from Greensboro, NC.

Mr. Chairman and members of the committee, I also have the pleasure of introducing another fine Virginian, Robert W. Beuley, to be inspector general of the U.S. Department of Agriculture. Also present today are members of Bob's family; his wife Barbara, his daughter Beth, and his son Mathew. We are sorry that his son Kenneth could not join us today.

Mr. Beuley became deputy inspector general on September 15, 1985, and currently serves in managing and directing the Office of Inspector General's investigative, audit, and security activities conducted by over 800 employees in OIG, with 7 regional offices

throughout the Nation and protectorates. As assistant inspector general for auditing at the Department of Interior, he directed over 220 auditors in 3 U.S. regional offices and in overseas regional offices.

He has served as the Assistant Director of Financial, Administrative, and Automatic Data Processing Division in the Office of Inspector General at the Department of Commerce. Prior to going to Agriculture, he was chief auditor of the Office of Revenue Sharing in the Treasury Department for 18 months and spent approximately 13 years in the U.S. Army Audit Agency.

Mr. Beuley has an MBA in management and a B.S. in accounting. He is a certified public accountant, a certified internal auditor, and a certified information system auditor. In 1984, he was selected by President Reagan to receive the rank of meritorious executive.

Mr. Beuley's qualifications for the position of inspector general of the U.S. Department of Agriculture should be evident to all of us. I hope that it will be a pleasure for this committee to support his nomination, and I thank the distinguished chairman.

The CHAIRMAN. Senator, thank you for a splendid presentation of a fine lady.

We will put Senator Dixon's statement in the record.[1]

Senator Warner mentioned a number of farm organizations that have submitted their endorsements of Kathleen Lawrence. These include the Fertilizer Institute, a letter signed by Gary D. Myers, the president. The National Association of Wheat Growers, Bud Leuthold, president. National Corn Growers Association, Dain Friend, president. National Cotton Council of America, Earl W. Sears, executive vice president. The American Bankers Association, Rusty L. Jesser, the National Cattlemen's Association, Don Butler, president, and the National Cooperative Business Association, E. Morgan Williams, president and chief executive officer. [2]

Without objection, these letters will be made a part of the record.

Mrs. Gilles, would you stand up so we can greet you.

Kathleen Lawrence's husband Andy, if you will stand, and Bill Wilson who is notable among other things for being from Greensboro, NC. You already met Drew, 4 years old.

Barbara Beuley. Nice to have you, Beth, and Mathew, who is 14 years old. We welcome the families of all of the nominees.

If the nominees will take a seat at the table, I have two questions. If your nomination is approved by the committee and the Senate, do you promise to respond to requests to appear, and testify, before this committee and any other duly constituted committee of the Senate?

Mr. HINEMAN. I do.

Mrs. LAWRENCE. I do.

Mr. GILLES. I do.

Mr. BEULEY. I do.

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[1] See p. 42 for the prepared statement of Senator Dixon.

[2] See p. 58 for a letter from the Fertilizer Institute; p. 58 for a letter from the National Association of Wheat Growers; see p. 59 for a letter from the National Corn Growers Association; see p. 59 for a letter from the National Cotton Council of America; see p. 60 for a letter from the American Bankers Association; see p. 60 for a letter from the National Cattlemen's Association; and see p. 61 for a letter from the National Cooperative Business Association.

The CHAIRMAN. Let the record show that all four answered in the affirmative.

If you are confirmed by the Senate, will you faithfully execute the laws passed by Congress, regardless of any prior statements you may have made or biases you may have held?

Mr. HINEMAN. I will.

Mrs. LAWRENCE. I will.

Mr. GILLES. I will.

Mr. BEULEY. I will.

The CHAIRMAN. Let the record show that all four responded in the affirmative.

Mr. Hineman, we will be glad to hear from you.[1]

STATEMENT OF KALO A. HINEMAN, COMMISSIONER, COMMODITY FUTURES TRADING COMMISSION

Mr. HINEMAN. Thank you, Senator.

After 4½ years as a Commissioner, I believe more than ever in the work the Commodity Futures Trading Commission is doing. I also believe the CFTC has matured into a most effective agency.

As an agricultural producer myself, I have, during my tenure at the Commission, been particularly sensitive to the concerns of agriculture. My door has always been open, and many agricultural organizations and individual producers as well have taken advantage of that. If confirmed for a second term, I intend to maintain this open-door policy.

As Chairman of the Commission's Agricultural Options Advisory Committee and its more broadly based successor, the Agricultural Advisory Committee, I have sought to bring to the Commission the views of the full spectrum of agricultural interests represented on the committees, including general farm organizations, national commodity organizations, agricultural co-ops, processing and marketing groups, and, not least, the agricultural lenders. We have three of them represented on the committee.

These committees have proved to be a very useful and productive endeavor, providing invaluable advice to the Commission, for example on structuring the Agricultural Options Pilot Program and on the development of secondary instruments—the minimum price guarantee contracts that are beginning to be offered to farmers by grain companies and others. Those are the secondary instruments through which I think more farmers will be able to use options than in any other way. They did that with futures. They used them in the indirect method in conjunction with forward contracts.

The Commission will continue to seek the counsel of the Agricultural Advisory Committee as we grapple with such issues as reevaluation of speculative position limits, possible changes in the hedging definition, delivery point issues and other issues that may arise.

Although my experience is primarily agricultural, I have taken an active role in all the issues that have come before the Commission. While I cannot claim a highly sophisticated background in financial matters, I have found that my 25 years of experience on

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[1] See pp. 43–50 for additional material relating to the nomination of Mr. Hineman.

the board of directors, of my local bank back in Kansas, provided a good foundation in dealing with such issues. Likewise, my 7 years' experience as a State legislator has stood me in good standing in participating in the deliberative process of the Commission

If confirmed, I look forward to the successful completion of some major items of work in progress; for example, the implementation of the new audit trail rules and amendments to financial rules, and to facing whatever new challenges lay ahead for the Commission.

I thank you for the opportunity to appear before you today and will be happy to answer any questions.

The CHAIRMAN. Thank you, Kalo.

At this point, let me recognize not only Mrs. Hineman but some guests who have an interest in this nomination. There are several staff members identified here. Dave Ebersol, Don Heitman, and Peggy Mitchell.

You are all welcome and we appreciate your coming.

Mr. Gilles, we will be delighted to hear from you, sir.[1]

Mr. GILLES. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair would recognize the presence of Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

The CHAIRMAN. You may proceed.

STATEMENT OF KENNETH A. GILLES, ASSISTANT SECRETARY OF AGRICULTURE-DESIGNATE FOR MARKETING AND INSPECTION SERVICES AND MEMBER, COMMODITY CREDIT CORPORATION BOARD OF DIRECTORS

Mr. GILLES. Mr. Chairman and members of the committee, it is a distinct pleasure for me to have the opportunity to appear before your committee once again. I greatly appreciate the introductory remarks made by Senator Burdick, the senior Senator from North Dakota. I believe he capsuled some of the background that I do present.

In the work at North Dakota State University, I did have an opportunity to deal with a broad spectrum of agriculture as the vice president of the institution. So I have a familiarity with most of the aspects of agriculture from agronomy to veterinary medicine.

I felt honored 5 years ago when I appeared before you as then the Administrator-designate for the Federal Grain Inspection Service. From my point of perspective, I think the 5 years have gone very quickly, and I hope, productively, and I think we have developed, together with my staff, a good rapport with the Agriculture Committee of the Senate and of the House.

When confirmed, I would anticipate that we would build on this record as we attempt to be responsive to your needs in the future. I am proud that the President has nominated me to be the Assistant Secretary of Agriculture for the Marketing and Inspection Services and as a member of the Board of Directors of the Commodity Credit Corporation.

To make my comments rather brief I would simply terminate by saying I will endeavor to be responsive to any questions that you or

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[1] See pp. 50–53 for additional material concerning the nomination of Mr. Gilles.

members of the committee might have that might facilitate this confirmation hearing.

The CHAIRMAN. Thank you very much. You have been a very effective representative of the USDA. You have done well. All the praise directed at you is well deserved.

Kathleen, we will be pleased to hear from you.[1]

STATEMENT OF KATHLEEN LAWRENCE, UNDER SECRETARY OF AGRICULTURE-DESIGNATE FOR SMALL COMMUNITY AND RURAL DEVELOPMENT AND MEMBER, COMMODITY CREDIT CORPORATION BOARD OF DIRECTORS

Mrs. LAWRENCE. Thank you, Mr. Chairman. It is a special honor to be here today; and I am particularly proud to have my family here. It is a tremendous honor to know that the President and Secretary Lyng have confidence in me to carry out the responsibilities of this particular office at a very crucial time in the history of rural America.

I have worked with members of this committee frequently and with their staffs over the last 3 years. They know that I have always been very accessible, and I do not intend to change that if I am confirmed.

As this hearing concludes, I hope that the members of this committee will see fit to support my confirmation, and in the event that does happen, I certainly look forward to working with them and with the Congress as a whole in the years ahead.

Thank you very, much.

The CHAIRMAN. And last but not least, Mr. Beuley.[2]

STATEMENT OF ROBERT W. BEULEY, INSPECTOR GENERAL-DESIGNATE, U.S. DEPARTMENT OF AGRICULTURE

Mr. BEULEY. Good morning, Mr. Chairman, and members of the committee. Thank you very much for the invitation to appear today. I am very honored and consider it a great privilege to be nominated by President Reagan to serve as inspector general for the U.S. Department of Agriculture.

During the past 8 months, I have served as deputy inspector general. I have developed a great appreciation for the many professionals at the Department of Agriculture as well as in the Office of inspector general itself.

I am aware of the many diversified and dynamic programs in the Department and I am looking forward enthusiastically to working with Congress and Secretary Lyng.

To be considered for this position as inspector general is a longtime career goal of mine. It is particularly rewarding to me since I just celebrated my 25th anniversary last week as a civil servant, and I am committed, Mr. Chairman, that if I am confirmed that I will continue to maintain the high standards of ethics and integrity and do my utmost to prevent and detect fraud, waste, and mismanagement.

Thank you.

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[1] See pp. 53–62 for additional material pertaining to the nomination of Mrs. Lawrence.

[2] See pp. 62–64 for additional material concerning the nomination of Mr. Beuley.

The CHAIRMAN. Mr. Hineman, I have seen figures showing dramatic growth in the volume and open interest of the soybean, corn, and live cattle agricultural option contracts. What do you think accounts for this growth?

Mr. HINEMAN. There has been tremendous growth particularly in these three agricultural option contracts. I think there are several reasons that the volume is greater in these than in the others.

One, on the cattle contracts, there are no price supports; therefore, and for many other reasons, it has been a more volatile market during this period of time, and when there is volatility people seek out ways to hedge that risk more than if the market is rather flat.

But I think it also proves the contract is serving the needs and fulfilling the needs of the hedgers, and in that context you'll see that there are a lot of smaller hedgers in there. However, when I say smaller, it is not the kind of smaller that I think a lot of us would think of around the country, because the reportable levels in that contract are a hundred contracts so that takes it out of the realm of being reportable—a small feeder that is using it. There are a lot of smaller ones using it but we do not have a handle on their exact numbers. We do not have any way of segregating the speculator and the hedger in the less than reportable categories.

The CHAIRMAN. The farmers are using it?

Mr. HINEMAN. The farmers are using it some, but again I think more farmers will probably end up using it by the indirect rather than the direct method.

In soybeans and corn, volume has always been high in those two contracts, and if you look over at the futures markets, the volume in the options kind of tends to parallel the volume in the futures market.

If there is a lot of trading going on in the futures markets then there is a lot of use of the options, too, and that is true in the other commodities, the ones that do not have as much volume, like the Kansas City wheat contract, where the volume in the futures has also been light. Because of this there is not much volatility in the option contract.

The CHAIRMAN. I want to ask you about audit trails. We have all been talking about that and we all have an interest in it. Where do you stand?

Mr. HINEMAN. In my opinion there is no question but that the audit trail rule is one of the most needed changes that we have. We need to have a good audit trail for many, many reasons. There are just an awful lot of the rules and regulations that we have that in order to enforce them properly, you need to know exactly what happened in that market down to within 1 minute.

I think we are absolutely right, as an agency, to have come out with a performance criteria rather than a design criteria. In other words, we tell them what the standard needs to be, and let each exchange decide how they can best meet that criteria.

The timetable now is that by, July 1, they are to tell us just exactly how they are going to do it, by October 1, they should be actually using this system, and by January 1, then it must be verifiable.

The CHAIRMAN. Senator Zorinsky and I met some folks earlier this year and it was a sticky situation then. Do you feel you have a comfortable working relationship with the exchanges and have established something that will work?

Mr. HINEMAN. I think we have. There is all kinds of testimony. No one testified that we did not need an audit trail, that we did not need a better audit trail. I think that is very significant, and I think a lot of it was a matter of getting down and working out and deciding how, and also just the big decision on how they were going to do it, and then getting together with us and finding out what kind of criteria we are going to look for afterward.

But it remains to be seen, obviously, what happens at the end of the year, but I am very hopeful and I do expect that with what the exchanges have said they would do with their CRT system that it would meet the criteria.

If it does what they told me it will do, then it will meet the criteria.

The CHAIRMAN. You are not going to get bogged down on turf battles, are you?

Mr. HINEMAN. I do not think so.

The CHAIRMAN. We had a meeting here yesterday with Wendell Ford. We were trying to preside over about 15 lawyers and didn't accomplish much. I have nothing much against lawyers, but Wendell said "It reminds me of the last time I went to the bar association back in my home county; they debated until 12:15 a.m. on the wording of a resolution endorsing Law Day USA." He thought it was amazing.

He said, "I left at 12:15. They broke up at 3 a.m." So I hope you will not have that difficulty.

Mr. HINEMAN. I think the point is well taken. I think there was some of that going on early on in this audit trail issue.

The CHAIRMAN. There definitely was.

Mr. Gilles, I am going to move along rapidly. The issue of grain and quality standards, especially relating to grain exports, has seen considerable publicity in the foreign press. Several bills have been introduced. Interested farm groups are meeting to make recommendations to improve grain quality standards.

Now, the question is, How large a role have our grain quality standards played in the decline of our grain exports? And as a follow-up question, Can a percentage of the decline be attributed to grain quality problems?

Mr. GILLES. Let me answer the second question first, Mr. Chairman. I think the quality issue has, in part, been associated with the decline of our exports, but primarily because the competition that we face has increased, and we must recognize that some of the countries that 10 years ago were importers of grain now have become exporters of grain.

The second major issue, of course, is the fact that we have encouraged production in some of the lesser developed nations in the world, and they are using the technology that we have assisted them with in trying to become exporters so that they can gain international trade.

The issue is very complex. Generally when we speak of quality, it is a matter of quality at a price, and our price range has, in recent years, been higher than that of our competition.

So the two issues really, I think, are very intimately interwoven. The concern on the part of the producers, the desire to increase quality, is a good concern. I think the Congress has responded very well also by indicating that if the industry can change, can improve, Congress encourages them to do so. And, if industry does not take charge of it, Congress will.

I think that Congress has acted very responsibly in this regard.

The CHAIRMAN. I gather you do not see any real problem about implementing the recommended changes?

Mr. GILLES. No, sir, at this point, we are in a rulemaking procedure for an element that is very important, that is, to change the way we document and report dockage in grain, and also the way that we report the protein content in grain. The protein content is proposed to be reported on a fixed moisture basis and the dockage to be reported on a one-tenth of 1 percent basis.

Interestingly enough, we did make an attempt at rulemaking 2 years ago on this type of an issue using slightly different terminology and found that there was great opposition to it. But that opposition now seems to have waned, and I believe at this point in time, the current proposal will be accepted with enthusiasm not only by the producers and the grain people but particularly by the buyers overseas.

The CHAIRMAN. Mrs. Lawrence, as everybody well knows, the Farmers Home Administration is out of direct operating loan money. As a consequence the farmers coming to the Farmers Home Administration for a direct loan are told to get a guaranteed loan instead.

Do you think the Guaranteed Loan Program is working to fill the direct operating gap?

Mrs. LAWRENCE. Mr. Chairman, we at Farmers Home have worked a great deal with the commercial lenders in this country to improve some of the aspects of the Guaranteed Program to make it work for the farmer, the Federal Government and the commerical banker.

To date, we have made twice as many guaranteed loans as we made last year. We are able to do this for several reasons, not the least of which was that we have made many of the requirements and regulations that deal with the bankers on the Guaranteed Program more flexible to make the program more acceptable and more usable to bankers, and most importantly to borrowers.

When we knew that we were almost out of direct loan money, Mr. Clark announced operation assist. In that program, Farmers Home county supervisors take a completed Farmers Home application for a direct loan, for which we do not have the funds, and bring it to the local bank. The county supervisor negotiates with the bank, including an interest buy-down if it is necessary, so that the bank will give the loan. And Farmers Home will guarantee 90 percent of it.

As of about the middle of last week, we have made about 20 million dollars' worth of those kinds of operation assist loans.

So in summary, I think it is working. It is working well. We are trying to work gliches out of it. There was a very obvious glich that came to mind during the urgent supplemental debate when I discovered that the interest buy-down guarantees could not have a balloon at the end of its 3-year term which is just not workable for most farmers.

So once that was apparent, I asked Mr. Clark to get busy changing the regulations so that the interest buy-down guarantees will parallel the regular guarantee program. A balloon will be allowed at the end of the seventh year, and an additional 15 years after the initial 7 will also be allowed, the same as our regular guarantee program.

So, these farmers who cannot get access to direct loan money can get the interest reduction that they need to cash flow.

The CHAIRMAN. What about all the talk I have heard about discussions in the upper echelons of the administration about selling the Farmers Home Administration portfolio to foreign banks? Have you ever participated in any such talk?

Mrs. LAWRENCE. No, sir, I have not. Nor, to my knowledge, has Mr. Clark. Furthermore, I do not think it is a good idea. I am aware that a lot of foreign banks are heavily invested in agriculture in this country.

Farmers Home portfolio is a little bit different than others. We are the lender of last resort, and we have a much higher rate of delinquency, and I certainly would not want to see a foreign bank in the position to foreclose on an American farmer and take over his property. So I would oppose, on a policy level, selling Farmers Home portfolio to any foreign bank.

The CHAIRMAN. My time is about up. I will say to Senator Zorinsky and Senator Harkin we have been sort of convoluted, because we had the majority leader and others who had other schedules so I neglected, and of course, I apologize, to ask you about your opening statements. Why do we not do that at this point. Then you can pick up and ask your questions on the first round.

Senator Zorinsky.

Senator ZORINSKY. Mr. Chairman, in the interest of time, I have a statement supportive of the nominees. I ask that the statement be placed in the record.

The CHAIRMAN. Without objection, it will be placed in the record.[1]

Senator ZORINSKY. Mr. Gilles, the administration has proposed that Federal meat inspection costs be met with a user fee, and while I assume that you support the administration's proposal concerning user fees, I would appreciate your personal views are on this matter.

Mr. GILLES. Senator, I do support the administration's stand on this matter, and having gone through the period of the last 5 years when the agency that I currently head was encouraged to go to a point where we are now supported about 85 percent by user fees, I find that that was a very good move on the part of the Congress to require us to do this because it required a considerable amount of

[1] See p. 42 for the prepared statement of Senator Zorinsky.

internal administrative inspection. What are the areas of your responsibility that are necessary; these are spelled out by the law. I think those obligations must first be met, then those activities that you need to do and finally those types of activities that you would like to do. I think it is a good move.

Senator ZORINSKY. Do you think you might ever support a pilot program similar to what the Federal Drug Administration uses in the case of mayonnaise? I understand they have in-house inspectors who maintain the quality and spot check continually the process.

Mr. GILLES. Yes, sir, I support the free enterprise system; moreover, I think the statistical approach to quality control has considerable merit particularly in those areas where there is a considerable volume of product that is being made.

It is very difficult to check each and every unit. It is more important to maintain a preventative posture than to emphasize the treatment posture.

Senator ZORINSKY. Mrs. Lawrence, during Senate consideration of the budget resolution, I played a little game with David Stockman, which was called "Let's Make a Deal." I was fortunate enough to convince them that money should be added to the agricultural credit function so that an interest rate buy-down program could be established. Subsequently, we provided for the program in the farm bill and authorized $490 million to be used for this purpose.

Therefore, it is disheartening to see that the Department has been so slow in implementing the program. The $490 million buy-down could have an impact on reducing interest rates by 4 percent for 3 years on loans totaling over $8 billion. I understand, however, that the interest rates on loans totaling approximately $3.2 million has been reduced under this program as of the beginning of this month.

That is a sad commentary. Mr. Stockman may have been benevolent in agreeing to the increased funding for the program, but it sure has not gone anywhere.

I was interested in hearing your reply to the Chairman's question.

Hopefully, the access to this program will be increased to the farmers. I believe that it still can be a very meaningful program if it is used. I would hope that you would pledge to do what you can to encourage an equitable and frequent use of the program.

Mrs. LAWRENCE. Senator, I asked Mr. Clark to get those rates changed as quickly as possible. I remember the debate in the farm bill, and if, indeed, the provisions in the farm bill on the switching from direct to guaranteed is to work, then the interest buy-down program has to work. I see the interest buy-down program as an integral part of the guarantee program in Farmers Home.

So I do pledge to you we will make it work.

Senator ZORINSKY. Thank you. The Farmers Home Administration loan portfolio is currently carried on the agency's ledgers at a value in excess of $25 billion. What is your estimate of the current market value of that portfolio?

Mrs. LAWRENCE. It is hard to say because we are unable, at this time, to put a cost figure on the subsidy. The way we book our ac-

counts makes it hard to tell. If we were to sell that portfolio on the market, it is unclear how the market would perceive the subsidy and what kind of a discount we would have to take.

I do not imagine in the foreseeable future that we will be able to sell the farm portfolio. I do not think that it is in a condition, quite frankly, to facilitate an easy sale as would be the community facility portfolio with a delinquency rate of less than 1 percent and bond counsel's opinions on every piece of paper.

That kind of a portfolio is much more marketable and it is much more easy to determine its fair value. It is very difficult to determine the value of the Farmers Home farm portfolio because of the heavy subsidies and the differences in the kinds of paper it contains.

Many of the loans in that portfolio are at limited resource rates and some are at Government rates. So it would be very difficult to put a price on it.

Senator ZORINSKY. The Senate recently passed the urgent supplemental appropriations. One provision of the bill permits REA borrowers to repay any or all of the loans to the Federal Financing Bank.

How quickly do you think REA will be able to implement the authority?

Mrs. LAWRENCE. If the supplemental is approved and the provision is as it was reported out of committee, they will be able to implement any part of that bill very quickly. It is my understanding, Senator, that there has been some compromise on that one amendment in conference, but I have no idea where it stands right now or what the compromise may be.

Senator ZORINSKY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman. I do not have an opening statement.

Mr. Hineman, let me just ask you what practical farm experience do you have? Have you had any practical farm experience?

Mr. HINEMAN. From 1947 until I came to the Commission in 1982, my business was running the farm there in Kansas which was composed of primarily wheat and cattle. As far as cattle, I was primarily a stocker cattle operator and got to retain ownership of more and more of those cattle through the commercial feedyards in selling live cattle where earlier I was selling feeder cattle, a lot of them going to the State of Iowa, but as the feedlots moved to our country, I began to put more of them through the commercial lots.

Senator HARKIN. Mr. Gilles, what practical farm experience do you have?

Mr. GILLES. As a youth, I spent quite a few hours pitching hay on a dairy farm, with potatoes and small grains.

Senator HARKIN. How about academic experience and work experience in agriculture in the past?

Mr. GILLES. Prior to coming to Washington I was, for 20 years, associated with North Dakota State University. More than half of that time spent was as the vice president for agricultural affairs. I had the broad responsibility for the agricultural research, extension, and the College of Agriculture and its international programs.

Prior to that time, I had been working as a lecturer at the University of Minnesota also teaching biochemistry for several years.

Senator HARKIN. Mr. Beuley, you are here for the post of inspector general, right?

Mr. BEULEY. Yes, sir.

Senator HARKIN. What background have you had? Of course, this is a nonagricultural-type thing anyway. But what background have you had in the agricultural area itself in terms of in the inspector general's office?

Mr. BEULEY. Well, in the last 8 months I have been serving as deputy inspector general of the Department of Agriculture and prior to that in the 1975 to 1978 timeframe, I was in the Office of Audit which was the predecessor organization of the Office of Inspector General. I worked in audits and systems that dealt with many agriculture areas including the Farmers Home, the ASCS, food stamps, and research.

So I have a good feeling for the agricultural problems and this huge conglomerate.

Senator HARKIN. But is the position of inspector general not a policy position?

Mr. BEULEY. No, sir, it is not. Audit and investigative.

Senator HARKIN. And your background is in auditing?

Mr. BEULEY. That is right.

Senator HARKIN. Mrs. Lawrence, what kind of practical farm experience do you have?

Mrs. LAWRENCE. Senator, my experience in agriculture is serving the last 3 years in the Department as the Deputy Director of the Office of Rural Development Policy and as Deputy Under Secretary with responsibility for Farmers Home, Crop Insurance, and REA.

Senator HARKIN. Let me ask the question again. What practical farm experience have you had?

Mrs. LAWRENCE. If, by practical experience, you mean have I farmed? No, sir, I have not.

Senator HARKIN. Have you ever lived on a farm?

Mrs. LAWRENCE. No, I have not.

Senator HARKIN. The position you are up for is a position of Deputy Under Secretary for Rural Development. What small towns have you lived in?

Mrs. LAWRENCE. I have lived in suburban areas in New York, on Long Island, and I have lived in Alexandria, VA. Those are the only places I have lived.

Senator HARKIN. So no experience living in small towns in North Carolina, Nebraska, Iowa, or Minnesota?

Mrs. LAWRENCE. No; I have experience in owning part of a small business in Craig, CO, but I have not lived in Craig.

Senator HARKIN. What academic training, then, that you might have that would be directly related to agriculture?

Mrs. LAWRENCE. My academic training is in economics and management.

Senator HARKIN. But not agricultural economics?

Mrs. LAWRENCE. No, sir.

Senator HARKIN. So no practical farm experience in the past. You have not been in any way involved in agricultural academic training and nothing in your practical experience involves living in

small communities in rural America. I just want to make the record.

Mrs. LAWRENCE. No, I have not. My experience in agriculture has mostly been in financial management and agency management.

Senator HARKIN. The position you are up for is the Under Secretary of Agriculture for Small Community and Rural Development. I have no doubt that you possess the intellectual capabilities of performing a position at the Department of Agriculture. I am somewhat concerned because this is a policy position, unlike Mr. Beuley's.

And I think it is interesting that the four nominees that are before us today, excluding Mr. Beuley, who is not in a policy situation, so I should say the three of them before us, that two have fairly extensive practical and/or academic backgrounds in the field of agriculture which commend them very well for the positions they now have and for the positions for which they are either being renominated or nominated.

And I would hope that would have been the case also in this position. Now, Mrs. Lawrence, you and I have met before, as I am sure you probably remember, in 1984, as a matter of fact I remember it well, on July 6, 1984, the House Subcommittee on Conservation, Credit and Rural Development at a hearing at which you testified.

And looking at the hearing record, on July 6, 1984, during the onslaught of the farm crisis in Iowa, you came to Iowa to discuss the farm credit situation. In discussing farm failures you said, and I quote: "There will be some loss this year," this is 1984, "but not significantly different from the normal turnover on a year-to-year basis."

Would you now acknowledge that that statement was in error or was it not in error?

Mrs. LAWRENCE. For Iowa, the loss was greater than the year-to-year historical turnover, but for the country as a whole it was about 5 percent as opposed to 3 to 4 percent historically.

Senator HARKIN. So that was not significantly different from your viewpoint on a national basis?

Mrs. LAWRENCE. It is significantly different to me, Senator, for every farmer who loses his farm. To him that is a significant difference, but at the time that I testified there was also testimony from economists who were saying that 15 percent of the farmers nationwide would go out in 1984. When I contrast significantly, I mean that I think the 5 percent that I was referring to was more on target than the 15 percent that was being alluded to at that time.

Senator HARKIN. I thought I just heard you say that in Iowa that perhaps it was significantly different but for the Nation as a whole, you said it turned out to be about 5 percent and the normal is 3 to 4 percent.

Mrs. LAWRENCE. That is right, sir.

Senator HARKIN. So you are saying that a 5 percent over 3 to 4 percent is not a significant difference?

Mrs. LAWRENCE. It would be if we had not been in the time of, as you so aptly pointed out, the beginning of the farm crisis, and if it

were not in a crisis year, I would say 1 percent would be very significant.

But given the predictions that 15 percent would go out, I do not think a 1-percent increase was as significant in relation to 15 percent.

Senator HARKIN. Oh, I see. Because there had been some more dire predictions, since it did not reach that, then it was not significant. I find it odd that you would think that an increase from 3 to 4 percent to 5 percent is not significant.

If you went from 4 percent to 5 percent, is that not at least a 20-percent increase in the number of farmers that are failing?

Mrs. LAWRENCE. Yes.

Senator HARKIN. How many farms is 1 percent of the farms in this country, Mrs. Lawrence?

Mrs. LAWRENCE. Yes; 20 percent if you are talking about all the farmers in this country—the total farm population.

Senator HARKIN. That is what you are talking about. You are talking about nationwide. And I am saying that from 3 to 5 percent is a significant difference, and you are saying it is not significant. And I am saying that from 4 to 5 percent is a 20-percent increase; 3 percent to 5 percent is almost a 33-percent increase in the number of farmers failing.

Do you have any idea how many farms comprise 1 percent?

Mrs. LAWRENCE. Of the total of 2.6 million farms, 1 percent.

Senator HARKIN. About 20,000 farms.

Mrs. LAWRENCE. Yes.

Senator HARKIN. So from 3 to 4 percent to 5 percent you are talking about 40,000 farms that were lost in the United States in that year. And so what I hear you saying is that it is not that significant because it was predicted to be more than that, and since it was not what it was predicted, then it cannot be too significant.

I am saying to you that a 20 or 33 percent, whatever it might have been, or 20- to 33-percent increase in the number of farms going under in 1984 I believe is very significant.

Mr. Chairman, my time is up.

The CHAIRMAN. Please continue.

Senator HARKIN. Thank you, Mr. Chairman.

Again, I would like to ask you. Evidently you say that that statement was not in error then.

Let me read it to you again. "There will be some loss this year but not significantly different from the normal turnover on a year-to-year basis."

Mrs. LAWRENCE. One to two percent difference taken in context of all American farmers—about 20,000 farmers—that is certainly significant.

Senator HARKIN. Let me ask you about the difference, then, in the turnover. In normal years, farm turnover is basically that, farm turnover. Do you have any data to show what happened to a lot of these farms or a significant portion of these farms that went on the auction block in 1984? And I have not even hit 1985 yet. I am about to hit that.

I mean, turnover is one thing when a farmer buys another farm. Right now in Iowa we have over a quarter of a million acres of

land owned by the Federal Land Bank and by private banks, some insurance companies. Do you consider that normal turnover?

Mrs. LAWRENCE. No, sir, not in Iowa I do not. But it is worse in Iowa than in most any other place.

Senator HARKIN. Well, again, I am trying to point out to you that the statement you said that it was normal turnover on a year-to-year basis, it was not normal turnover because it was significantly higher, and plus the fact that the turnover was not from one farmer to another but mostly from a farmer to some lending agency, and that is not normal.

But if you insist that your statement was not in error, then fine, we will stand on that.

Mrs. LAWRENCE. Senator Harkin, let me make a reference to that statement. When I came to Iowa to give that statement 2 years ago, as was so aptly pointed out by the members of the committee who were there, I had been in office for 3 months, and that statement that I read was prepared and cleared by the administration.

There are a lot of things in that statement that, at the time I delivered it, I believed to be accurate, and some things in that statement today I know are not accurate such as what was going to happen to land prices.

We believed in the Department of Agriculture in 1984, at the end of June 1984, that in most places in the country in 1984 land values were beginning to bottom out. We know now that land values fell an additional 12 percent nationwide, but worse in Iowa, and in 1985 an additional 12 percent, but worse in Iowa.

But in 1984, that was the best information we had. We know now, given the benefit of hindsight, that our forecast was wrong.

Senator HARKIN. Well, there were a lot of people saying at the time that there was no way. I will read your statement back to you. "We think land prices have bottomed out." This was July 6, 1984. "We think the financial valley that the farmers have been in for the last 3 or 4 years has been crossed. Prices are improving. Inflation is down. At Farmers Home Administration, the number of farmers leaving for financial reasons is declining for the second straight year."

Mrs. LAWRENCE. Senator, at that time that was an accurate statement.

Senator HARKIN. No; it was not accurate. I am sorry. Land prices had not bottomed out. They were going down and they continued to go down, and they have been going down ever since. It could not have been an accurate statement.

Mrs. LAWRENCE. I said we believed at that time land values were bottoming out. We did believe it, and we were wrong.

Senator HARKIN. I might also point out that prices were not improving, as a matter of fact, if you check the record on that.

"At Farmers Home Administration, the number of farmers leaving for financial reasons is declining for the second straight year." Do you have demonstrable proof of that that they were not leaving for financial reasons? What were they leaving for?

Mrs. LAWRENCE. Senator Harkin, later on in the statement if I recall, I offered to submit that data as to how many farmers were

leaving and for what purposes. Those tables were submitted to the committee, and they do appear in the record of that hearing.

And I do believe that the record will show that there were more attempts by Farmers Home to reamortize, reschedule, defer payments that while we were losing farmers at Farmers Home at that time, the rate of decline had decreased.

The CHAIRMAN. We will return to you in just a minute.

Senator Leahy.

Senator LEAHY. Mr. Chairman, I may have a question or two for the record. I have no opening statement.

The CHAIRMAN. Very well. We are now starting the second round of questioning. I guess there is not a person in this room who does not have 20/20 hindsight, and I certainly regret all the statements that I have made in good faith down through the years that later proved to be incorrect.

Furthermore, we can get into the political aspects of the distress of the farmers and we can talk about that all day long. We can discuss the causes of the distress, and they are many, not the least of which is the value of the dollar, which had priced U.S. farm commodities out of the market and the unwise, failed policies of the past, which were proven so by hindsight.

Now, if you want to look at arithmetic on farmers going out of business, I did some research not long ago, and I found that in the postwar years after World War II an average of about 90,000 farmers left agriculture every year. I am talking about farms out of business, not about transfers.

In 1975, about 11 years ago, and that was a time when we all talked about the prosperity of the American farmer, do you want to estimate, sir, how many farmers went out of business? 274,000.

So we can kick around figures. We can say it to any witness, "You were wrong on this statement." But I do not think it is quite fair, and I know the Senator from Iowa does not intend to be unfair. He is a fair man.

How long had you been with the Department then?

Mrs. LAWRENCE. Three years, sir.

The CHAIRMAN. Were you stating administration policy and beliefs?

Mrs. LAWRENCE. Yes, sir, I was.

The CHAIRMAN. Maybe I ought not to ask this question, but did you write that speech?

Mrs. LAWRENCE. I did not write it nor did I have any input into it.

The CHAIRMAN. But you were assigned to make the speech to express, as a representative of the administration, the views of the administration?

Mrs. LAWRENCE. That is right.

The CHAIRMAN. Now, you have acknowledged, I believe, this morning that by hindsight, if you had written the speech, if you had been on the job longer, and various other things, that the content of the speech might be different, is that correct?

Mrs. LAWRENCE. I suppose it could be; yes.

The CHAIRMAN. In terms of the arithmetic.

Mrs. LAWRENCE. Oh, absolutely. If I knew then what I know now, absolutely.

The CHAIRMAN. You can prove anything by statistics. I have sent for the precise figures year-by-year since World War II, and I did that several weeks ago, because the North Carolina papers had headlines saying "3,000 North Carolina farms went out of business last year."

Well, that was true, but nothing in the headline indicated what the norm had been. Now, my use of arithmetic does not mean that I am unsympathetic or insensitive to the plight of the farmers. We all are sympathetic. We are all groping for answers.

As far as I know, as expert as the members of this committee are, we grappled for the better part of 14 months trying to produce a farm bill, and when we got through, it was far from being a model of perfection.

And I just hope that it can be understood that Mrs. Lawrence has committed no sin past or present with respect to the speech that she delivered, and I do not think, Tom, that you really want to bear down too hard on her.

At the same time, you are entitled to make your point. This year is divisible by two, and we know what happens in years that are divisible by two, and every November in a year that is divisible by two things happen.

So I understand all of that and have no objection to it, but let me move on with the remainder of my 10 minutes on this round.

Mr. Beuley, and I do not want anybody to infer an insensitivity toward people who are in need, but the American people, sir, are fed up with what they perceive to be a disastrous amount of corruption and mismanagement in the various USDA support programs.

For example, the Office of the Inspector General was involved recently in a case in which over $2 million in fraudulent WIC participation was discovered, is that correct?

Mr. BEULEY. That is right, sir. $2.3 million.

The CHAIRMAN. Now, I wonder if you would briefly identify what was the source or cause for this level of abuse in that program, and state what we might do in terms of legislation to make sure it does not continue.

Mr. BEULEY. Yes, sir. That situation was in New York City. We arrested, about 10 days ago, six people in the scheme that involved some 40 unauthorized stores that were transmitting vouchers to 2 other unauthorized stores. They were accepting valid women, infants, and children [WIC] vouchers. The vouchers contained commodities on them such as 4 quarts of milk or the infant formula, and the maximum amount that can be put on a voucher in New York is $16.

The way the program is supposed to operate is when the participant picks up the milk and hands it into the cash register clerk a sales receipt is charged up and then they should watch the clerk put the amount on the WIC voucher.

This did not happen in many cases. Therefore, there was a blank amount. The recipient received their goods and left. On these blank vouchers, the individuals at the store decided, in one case, to take a voucher for 4 quarts of milk that cost normally $2 or $3 and make it $14.90. This voucher is what went into New York State for reimbursement.

This $2.3 million fraud happened over a 6-month period of time. Therefore, the Food Nutrition Service and New York State as well, are looking into the kinds of controls that they can put into the system to help flag these type of problems. Our audit group will go in and do a followup review to determine just what kind of controls they are building into the system.

At this point, I am not sure what additional legislative reforms are needed. We will be able to tell better after the audit.

The CHAIRMAN. Well, the GAO made some recommendations last year. Are you familiar with them?

Mr. BEULEY. Not in detail.

The CHAIRMAN. I hope you will become familiar with them, and add to, delete, or adjust them in your recommendations to us.

And now we get to the Food Stamp Program. Here again, I do not want anybody to infer any insensitivity, but the fact is that by the IG's own discoveries in the past, this is a program laden with corruption. It is so big that the Mafia is involved in food stamps, as you know.

Now, we have tried to adopt recommendations here to improve the administration of the program and reduce the fraud, most notably through computer matching. Have you examined the continuing high error rates and determined if there are other actions that should be recommended to us?

Mr. BEULEY. Well, at this point, Senator, we think that some of the legislative requirements put in, such as the matching, the quality control reviews and the sanctions, were very good reforms.

We are doing follow-up reviews right now. Part of the problem is just enforcing those particular provisions already in the law. I think this is where we are finding some problems.

There is some matching. More of the States are doing it. There are some problems in some of the ways they are doing it. There needs to be more refinements. We are working with FNS on those problems. I think part of the problem is getting a lot of the provisions that are already instituted and followed by the people in the States.

Right now, we do not have any additional legislative reforms to add. But we will be evaluating those areas when we finish our current audits in the matching and in the quality control reviews.

The CHAIRMAN. Now, you are familiar with the fact that I requested that the IG some years ago use North Carolina as a pilot State in examining what was really going on in the Food Stamp Program. I asked that the IG send inspectors to Ashville, Charlotte, Greensboro, High Point, Raleigh, Fayetteville, and Wilmington, and to report back to us. The inspectors went out to see if they could buy food stamps.

They said, without exception and without exception as to the city, that they put on the old clothes and stood on the street corner and they were not there over 5 or 10 minutes before people come up and say, "I understand you are buying food stamps."

So this is the kind of thing that I am talking about. I do not think any American wants that kind of profitmaking to occur. I wish you would go back and review that information, that pilot program, and see whether you would recommend that we have

similar tests in other parts of the country, maybe again in North Carolina, to see if there has been any improvement.

We happen to have a U.S. attorney down there who has been very active in the prosecution of this thing for the simple reason that for the Government to ignore it would be for the Government to condone it.

Mr. BEULEY. I agree with you 100 percent there. As a matter of fact, we just arrested several people that were trafficking in food stamps right outside the Federal building in San Francisco.

The CHAIRMAN. Senator Zorinsky.

Senator ZORINSKY. Thank you, Mr. Chairman.

Mrs. Lawrence, I can sympathize with you. I have in front of me an article from the Raleigh News and Observer, Raleigh, NC, written by a Rob Christenson, concerning Broyhill and Sanford campaign for the Senate, and I will quote from it.

"Broyhill who was introduced by former U.S. Agriculture Secretary John Block noted that Republican Senator Jesse Helms would lose the chairmanship of the Senate Agriculture Committee if the Democrats won control of the Senate. His likely successor would be Senator Edward Zorinsky of Nebraska, the committee's ranking Democrat.

" 'The heart and the soul of the economy in eastern North Carolina is agriculture,' Broyhill said. How are we going to protect our farmers if we turn over the leadership of the Agriculture Committee to somebody from Nebraska."

[Laughter.]

The CHAIRMAN. The year is divisible by two.

Senator ZORINSKY. It is clear that my background is not agriculturally oriented. I was the mayor of the city of Omaha and never lived on a farm. At one point in my life, I thought all the food was born on the aisles of the supermarket. But I learned quickly.

Because of my obvious lack of knowledge of agriculture, I promised the farmers in Nebraska that they would be my resource; they would be my mentors; they would be my teachers, and I would be an extension of their will on this committee.

In 1982, the people of Nebraska returned me to the Senate by 67 percent of the vote even though I was a city boy and very rarely went to the country.

I also remember that there was one agriculturally oriented fellow that used to come and sit right in that chair quite often. His name is Jack Block. He came here 3 years ago and told me that exports were going to pick up, and that we are going to sell a lot more grain into the international marketplace.

He came back and sat down at this table the next year and told me the same thing, and he repeated it again just before he left office. You know what? He was wrong. And he had a great deal of agricultural experience.

Therefore, I would conclude that an agricultural background is not necessary to effectively represent the interest of farmers and ranchers and rural communities.

Mrs. Lawrence, I would hope that in excercising the responsibilities of your office, you will be accessible to the farmers of this Nation, that you would be compassionate, and that you will use

common sense and logic. That can go a long ways—in some instances, even further than experience and background.

Mrs. LAWRENCE. Thank you, Senator. If I am confirmed, I promise I will use to the best of my ability common sense, and logic, and I will always listen to the farmers.

Senator ZORINSKY. I think that you will find in talking to farmers that they are more interested in how can we raise the price of commodities so that there is a profit in agriculture, than they are in how many of them went broke in any given year. That is what they are all telling me.

The CHAIRMAN. Thank you.

Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

I am certainly not here in any way to pass judgment on anyone's moral qualifications. When someone says that no one has committed a sin, there certainly has been no sin committed. That is outside of my realm of questioning. I am not here to pass judgment on anyone's moral character. I think that has already been thoroughly investigated by the FBI in the background check. So I do not think we have to get into that. No one is casting aspersions on anyone's committing any sins.

Second, we can talk all we want to about Monday morning quarterbacking and hindsight, and everybody likes to Monday morning quarterback, but when it is bright daylight out and someone tells me it is nighttime, I really have to question that person's judgment. It has nothing to do with hindsight.

It has to do with statements, remarks, and opinions uttered at one time when the facts, indeed, show that there was something else happening. So it is not hindsight. It is a matter of judgment.

As far as the year being divisible by two, my line of questioning would be the same and my position would be the same if it were an odd number year. You can rest assured on that. It is not this Senator's year to be interested in years divisible by two, neither it is the chairman's either. So as far as being divisible by two, that has nothing to do with me this year.

But what it does have to do with me is that there is a reason why you are sitting there and we are sitting here. There is a reason why nominees come before this committee or any other committee to be confirmed for positions nominated by the President of the United States, because we have a duty and responsibility to the people that we represent to also ensure that those who are being nominated are not only just intellectually qualified or that they have held certain positions in the past but in fact they are equipped not only intellectually but with the kind of judgment and capacity to discern differences that are needed in those positions.

So we have a responsibility, too, not to sit here and rubberstamp any nominee that comes before us.

The CHAIRMAN. I agree with that.

Senator HARKIN. But to severely get into how that person views those elements, those areas of jurisdiction that will be under that person's domain if, in fact, he or she is confirmed by the Senate. And thus my line of questioning for Mrs. Lawrence regarding her

appearance before a duly constituted subcommittee of the House of Representatives 2 years ago.

Again, I am not saying either that someone who has not lived in a small town, someone who has not worked on a farm, or someone who has not had an academic background in agriculture cannot fill a position dealing with small towns and rural communities and agriculture.

All these things have to be taken and added up together, academic background, life experiences, involvements in the past, views, positions held then and now, and all of these things have to be added and weighed together and that is the process we are going through, to try to weigh all of these, put them all together.

As I said at the beginning, I have no doubt that Mrs. Lawrence is a fine person. I have no doubts about that. I am certain that she is a good mother and a great neighbor and an intellectual person and has all kinds of great qualifications. And I am certain that there is probably more than one position in this administration for which Mrs. Lawrence is eminently qualified to fill.

But I am concerned about this position, because it is Deputy Under Secretary for Small Community and Rural Development, and I want to know that that person who is going to fill that position, when you add up all of the past experiences, where they have lived, what they have said, what they have studied, all of those, at least the scales tip toward being sensitive to and understanding of the problems that we are having in rural America, and I am sorry to say that I have not found that yet in this nominee.

Now, again, we have all had our little speeches here, and that is my little speech. But I do intend, Mr. Chairman, to engage in some further questioning concerning Mrs. Lawrence's knowledge of and attitude toward certain programs that will be under her jurisdiction.

Mrs. Lawrence, under your jurisdiction is the Farmers Home Sewer and Water Program. Can you give me a brief rundown as to the situation with that Sewer and Water Program right now, its funding levels and what you foresee for the next year?

Mrs. LAWRENCE. Senator, the Water and Sewer Program in Farmers Home is one of the better portfolios we have. It has one of the lowest delinquency rates, about 1 percent.

Senator HARKIN. About 1 percent what?

Mrs. LAWRENCE. About 1 percent.

Senator HARKIN. One percent?

Mrs. LAWRENCE. That is right, just about 1 percent, which is about the best we have of all of our portfolios. The portfolio stands between $7.5 and $8 billion right now. The budget presentations that Mr. Vance made before the Appropriations Committee indicated that it was the intention of the administration to zero out that program and, further, the water and sewer portfolio is a prime candidate among all the other portfolios of the Federal Establishment for possible sale to the private sector.

Senator HARKIN. Well, now, I am glad you said that because I was about to ask that. What is your position on that?

Mrs. LAWRENCE. On the portfolio sale?

Senator HARKIN. Yes.

Mrs. LAWRENCE. For that particular portfolio, I think that it is a good candidate.

Senator HARKIN. In other words, you think that the sewer and water portfolio of the Farmers Home Administration ought to be put up for auction and sold?

Mrs. LAWRENCE. If it is, it will not affect the communities which used the water and sewer programs. It is just a matter of reselling the paper, which is some of the best paper Farmers Home owns, in an attempt to bring some immediate dollars back into the Federal Government to help with the deficit problem.

Senator HARKIN. Then what will happen to the Sewer and Water Program of the Farmers Home Administration? What will happen to it?

Mrs. LAWRENCE. The current budget recommendation of the administration which, as you know, we do not have agreement on yet, calls for that program to be zeroed out.

Senator HARKIN. Do you also believe that the Sewer and Water Program ought to be zeroed out, Mrs. Lawrence?

Mrs. LAWRENCE. I believe it is a very important program, Senator Harkin, and I believe it has made a difference in a lot of rural communities to have safe water and waste systems. I think that the administration's recommendation to zero it out has nothing to do with whether it is a good program, as it has to do with we have to cut some place to balance the budget.

Senator HARKIN. Do not get me started on that.

Mrs. LAWRENCE. Well——

The CHAIRMAN. Senator, would you yield for just a moment?

Senator HARKIN. I would be delighted to yield.

The CHAIRMAN. Do you have questions of the other three nominees?

Senator HARKIN. No.

The CHAIRMAN. We will be delighted to have you stay if you wish, but if you have other commitments, we understand. So there will be no more questioning of the other three nominees. We thank you gentlemen for coming and we will get the committee together as soon as we can get a quorum and see if we cannot report your nominations out. Thank you very much.

Senator HARKIN. Again, Mrs. Lawrence, going back to what I said in my remarks prior to my question about sewer and water, I am interested in your views and your opinions and I know the administration has recommended zeroing out sewer and water, I know they want to privatize the loan portfolio that is out there. I want to know how you feel about it. I want to know, do you believe that is a good idea to get Farmers Home and to get the Federal Government out, and evidently you are saying yes, it is, because you believe that we have to balance the budget by cutting down on sewer and water programs. Now, I am sorry, but I have got to tell you——

Mrs. LAWRENCE. Senator——

Senator HARKIN. Excuse me. You said that we have to balance the budget some place, a $200 billion deficit. We have got a lot of places in that budget that we can cut. Here is one program that even in your own words has worked and worked well, has improved the quality of life for literally hundreds of thousands, if not mil-

lions of Americans living in small towns and communities, and I know because I come from one of them, and you are telling me that the best way to balance the budget is to start cutting these programs? I cannot believe I heard that from you, and you want to be in that position.

Mrs. LAWRENCE. Senator Harkin, I think the Water and Sewer Program of Farmers Home is an excellent program, and I think that the availability of clean water and sewer facilities are of major importance to rural America, particularly now when the spinoff of the economic crisis facing the farmer is bound to be an economic crisis facing the rural community.

I have always been, and continue to be, willing to find some accommodations, some compromise, some way of seeing how we can keep the needed and best programs in Farmers Home and any other agency in the Government and at the same time live within Gramm-Rudman. And if we can find some other way——

Senator HARKIN. Excuse me, Mrs. Lawrence, if I may just interrupt, Gramm-Rudman does not mandate zeroing out sewer and water.

Mrs. LAWRENCE. No, it does not, but the cuts have to come from some place and we have to work together, Senator, to find out where the cuts can hurt the least and where we can get the most for our money. With the Water and Sewer Program in Farmers Home being in such good condition, having been such a successful program, it has the best chance of being able to get private sector financing.

Senator HARKIN. Again, I cannot—do you want to say that again? You believe that the Sewer and Water Loan Program is the best place where small communities can get private financing to put in their sewer systems, their waste disposal systems?

Mrs. LAWRENCE. I was talking about—I am sorry, Senator, I did not imply that. I was——

Senator HARKIN. Well, you just did that.

Mrs. LAWRENCE. What I was talking about was the portfolio. We can do more with that portfolio——

Senator HARKIN. Well, you can sell the paper you have got. I am talking about those communities out there that still need adequate waste disposal and/or water systems. Where are they going to get it? Are they going to get it from the private sector if you zero out the program and do away with it?

Mrs. LAWRENCE. They would fall back on the other programs in other agencies such as EPA for that kind of help. Senator, I think that we have to work together in order to see that these rural communities do get what they cannot get anyplace else through the Federal Establishment. But when they can get assistance elsewhere, in order to balance the budget, in order to meet Gramm-Rudman, we are going to have to—even we in Agriculture are going to have to take some cuts. It is not that we think that it is not needed. It is just that the cuts are everywhere, not just in my areas.

I would like it very much if we did not need to make cuts, but we have to make cuts.

Senator HARKIN. So we dump these small towns on EPA. And do you know what EPA says? They have to cut, too. There is no com-

parable program in EPA for sewer and water grants and loans as we have in Farmers Home. There is none. Now, they do have a grant program in EPA, but those mainly go to large cities. And you throw in my small town of 200 people in Iowa, up against your city of New York, where you come from, who do you think is going to win that fight?

Mrs. LAWRENCE. Well, I think——

Senator HARKIN. It sure is not going to be my hometown.

Mrs. LAWRENCE. Well, I am glad you brought that up, Senator, because I think that is something we need to work on. It is in the Rural Development Act that the Secretary of Agriculture is responsible for seeing that rural communities do get their fair shake, not just in the Department of Agriculture but all throughout the Federal Establishment, and I think that is a very important role that this Under Secretary's office has to fulfill.

Senator HARKIN. What other Secretary?

Mrs. LAWRENCE. The Under Secretary for Small Community and Rural Development. I think that——

Senator HARKIN. Mrs. Lawrence, excuse me. If you do away with this program and zero it out, then what Secretary, what agency of the Government is going to fight for those small towns and communities?

Mrs. LAWRENCE. I think it is incumbent on the Department of Agriculture, in particular the Under Secretary for Small Community and Rural Development, to fight for rural communities and their fair participation in the programs not just in the Department of Agriculture but all throughout the Federal Establishment—at HUD, at HHS, at Education and at Labor. A good example of this advocacy is the success we have had in getting the Labor Department to give specific funding for Job Training Partnership Act money to rural places to help displaced farmers. That kind of advocacy for rural America extends beyond the lines of the Department of Agriculture.

Senator HARKIN. Excuse me for saying this, but I am going to say it: I think that that statement that somehow you are going to go over to HUD and you are going to go over to Labor—and I do not know what other agency you mentioned—that you are going to fight for these programs in all these other agencies, when you yourself are zeroing out the Sewer and Water Program.

It is like me saying, well, we do not want it, we are going to zero it out, we are going to get rid of it, but, HUD, we want you to do it, or, EPA, we want you to do it, or, Labor, we want you to do this. I think that exhibits extreme naivete about how this Government works. They are going to fight for their own programs. They are not going to go battle for the programs that you have thrown overboard and let sink.

If you throw them overboard and let the Sewer and Water Program for small towns and communities sink, do you think HUD is going to be there to pick it up? Do you think you are going to walk down the street to HUD and convince them that they should fund something that you yourself do not want to fund?

I just think, Mrs. Lawrence, that exhibits a great deal of naivete about how this system works.

The CHAIRMAN. Senator, if you will yield, and I ask you to yield, respectfully. You were not here when I asked each of the four nominees this question: If you are confirmed by the Senate, will you faithfully execute the laws passed by Congress, regardless of any prior statement you may have made or bias you may have held?

How did you answer that question?

Mrs. LAWRENCE. I answered I will.

The CHAIRMAN. Right. Now, furthermore, it is a fact that this is not a judgment to be made by this lady, it is not a judgment to be made by the Secretary of Agriculture, it is a judgment to be made by Tom Harkin and 99 other Senators and 435 Members of the House of Representatives.

Now, it is a matter of priorities and I cannot forecast for you what the priorities will be as mandated by Congress. But the lady has answered your question. And if Congress mandates the continuation of water and sewer projects, will you faithfully execute the mandate of Congress?

Mrs. LAWRENCE. Yes, sir; I will.

The CHAIRMAN. Very well. Now, let me say this, if the Senator will yield further: The biggest complaint that I have from the farmers in North Carolina—it may be different now—is that there are some 30-odd different programs administered by Farmers Home, and this is one of low priority in terms of what the farmers in my State want. Now, I say that respectfully and in all friendliness to my friend from Iowa.

Senator HARKIN. You are talking about the Sewer and Water Program?

The CHAIRMAN. Yes.

Senator HARKIN. Have you talked with the people who live in your small towns, though?

The CHAIRMAN. Yes.

Senator HARKIN. I do not mean just the farmers, I mean people who live in towns of 300, 400, 500 people who have had these things that have improved their quality of life to the Sewer and Water Program.

The CHAIRMAN. Well, the point I am making is that, given a scale of priorities, this is low on the list for them—they have other needs which they consider more important—but I go back to my original point that it is up to us, not to her, to decide what those priorities are in terms of authorization, and we did that, did we not, in the farm bill?

Senator HARKIN. I hope we will do it again, too——

The CHAIRMAN. Yes.

Senator HARKIN [continuing]. In the budget next year.

The CHAIRMAN. Yes. So I think the point needed to be made that this is not a judgment that this witness is going to make or has the power to make. It is ours.

Senator HARKIN. I understand that, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator HARKIN. But as I said in my remarks, we are here to act on her confirmation and it is a weighing process. It is not just whether a person carries out the laws. It is what that person's judgment qualities are and whether or not we feel in our own indi-

vidual capacities whether that person has the judgment to carry out not only the laws but the intent of what Congress wants.

When I hear a person say, well, we can zero out the program and I can go down the street to HUD or EPA and we will work on them to get them to do it. I have some very serious questions about that.

The CHAIRMAN. Well, let me say to the Senator, I admire him for exercising his responsibility to advise and consent. But what I heard the lady say—maybe I misheard—was that we have a $200 billion-plus deficit, we have a $2 trillion-plus national debt, and something has got to give, otherwise the same thing is going to happen to farmers again that has happened before, the farmers are victimized by irresponsibility in this Congress with respect to spending and to deficits.

Did I misunderstand you? Is that what you were saying?

Mrs. LAWRENCE. Yes, sir.

The CHAIRMAN. Now, I encourage you to pursue your line of questioning, but I still say that it is up to us, and she has said, not under oath but the same as, that she is going to do what we say to do.

Now, probably you could interrogate the lady and you could find 15 or 20 areas of agreement. That is the point I am making. Now, whether she was raised in a small town is irrelevant. I was and you were, but that does not make me a reservoir of wisdom about what to do about the farm problem, where I was born or working on a farm or—

Senator HARKIN. If the chairman would yield on that, I believe it does give the chairman—and I know how hard you have fought for small towns—it gives the chairman a concept, a knowledge of what those small towns are about and how those people live, what they do, their problems and the fact that they are dumping sewage in their ditches and things like that, there are health problems that it causes. You know that because you have been there.

The CHAIRMAN. Well, I apologize for interrupting the Senator.

Senator HARKIN. No, that is fine, Mr. Chairman.

The CHAIRMAN. Maybe, since Senator Heflin and I are the only two remaining Senators, maybe you would like to give him a round.

Senator HARKIN. I would be glad to.

The CHAIRMAN. Fine. Senator Heflin.

Senator HEFLIN. I hope that you have the same faith and hope in the Agriculture Committees as you do in the State Department. [Laughter.]

The CHAIRMAN. Well, I have more faith in the Agriculture Department. [Laughter.]

Senator HEFLIN. I have, too.

I do have some concerns mainly with your background, going from an urban area to rural, I think anybody naturally would have. Do you believe in the REA concept?

Mrs. LAWRENCE. Senator Heflin, REA is one of the big success stories of the Department of Agriculture. It has done more for rural development than any other single program, including Farmers Home.

Senator HEFLIN. I did not understand you.

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Mrs. LAWRENCE. I said it has done more for rural development than any other single program, including Farmers Home. I believe that most of rural America is electrified and has telephones, REA has almost completed its job, and I think it is time for us in the executive branch and the Congress to examine how much of that job is completed and whether any more of it is left to be done and, if so, how much and then proceed from there.

Senator HEFLIN. I believe the question was do you believe in the concept.

Mrs. LAWRENCE. The concept of rural cooperatives or the concept of——

Senator HEFLIN. The REA concept.

Mrs. LAWRENCE [continuing]. Of the subsidized loans? I do not understand your question, Senator.

Senator HEFLIN. You do not understand the concept of REA?

Mrs. LAWRENCE. Yes; but I do not know whether you are talking about the cooperative method or the——

Senator HEFLIN. The cooperative effort as opposed to private effort.

Mrs. LAWRENCE. Investor owned.

Senator HEFLIN. Do you believe in the Rural Electrification Cooperative Program?

Mrs. LAWRENCE. Yes; I think it is a good program.

Senator HEFLIN. You what?

Mrs. LAWRENCE. I think rural cooperatives and the rural cooperative system is a good system. I think it is a good program.

Senator HEFLIN. Do you believe in the concept?

Mrs. LAWRENCE. Yes, sir; I do.

Senator HEFLIN. Do you have any ideas of what you would do in the Federal crop insurance, do you have any ideas of what you would do relative to the Federal Crop Insurance Program?

Mrs. LAWRENCE. Yes, sir. The Federal Crop Insurance Program has come a long way since the 1980 act, when only a few crops in some counties were covered, to where we have almost universal coverage now. I think there are still a lot of quirks in the system that still need to be worked out. Our actuarial tables are not as good as they can be because we do not have the history. But the history every year since 1980 makes the tables and the actuarial job that the crop insurance has to do more accurate.

Our losses have been very bad in the last few years and as a result we have had to do a lot of borrowing for crop insurance to pay indemnities. We believe that as the actuarial statistics improve we can improve that as well.

Seventy-five to eighty-five percent of all crop paper is sold by the private sector. The Reinsurance Program in the Crop Insurance Corporation has become more and more important. I think that the Reinsurance Program is the future of the Crop Insurance Corporation.

Senator HEFLIN. What is your feeling on fire protection under the Farmers Home Administration? Do you think that——

Mrs. LAWRENCE. In the Community Facilities Program?

Senator HEFLIN. Yes.

Mrs. LAWRENCE. The Community Facilities Program makes loans on rural community fire protection programs. Like all the commu-

nity facility programs, it has done an excellent job in what it had set out to do. I have just had a discussion with Senator Harkin about the Water and Sewer Program under the same division in Farmers Home. It performs a very valuable service to rural America. We come head to head right now with all of the good services we provide. How do we continue to provide them facing the budget situation we have and, like water and sewer, the Fire Protection Program will be right in the middle of that debate, to continue on that vein, Senators?

The Congress will pass the laws and the system that we have will work its will. We may not agree as we debate the issues on any given subject, and we may agree on many, and on many others we may reach a compromise or accommodation.

All I can pledge to you is that even when we do not agree, that I will listen, and I will consider all views. If the administration takes the position opposite, I will support the administration position because that is my job. But if you pass a law with which I disagree in the debate prior to the passing, I will uphold the law. I will administer it to the best of my ability because that is how the Federal system works.

Senator HEFLIN. I have no further questions.

The CHAIRMAN. Senator Harkin.

Senator HARKIN. Thank you. One of the problems we get into is when people administer laws they do not like, they do not believe in, they find more ways of slowing it down or messing it up because they do not believe in those. And I have seen time and time again when this Congress passed legislation, to find that it has been tampered with, slowed down by people who do not believe in it. So again that is why I am concerned about your views on things like sewer and water programs and things like that, because I want to know if we do pass them, I want to know if you are really going to be enthusiastic about it or whether you are just going to sort of maybe just carry out the minimum necessary to carry out the laws passed by Congress.

Now, I do not mean to belabor the point about deficit spending, but I am going to mention it again since you brought it up. I appreciate your concern about it. I am concerned about it, too.

You mentioned Gramm-Rudman. Well, I am one of those who did not support Gramm-Rudman, and I will tell you why I did not support it, because I took out my pocket calculator and I got my staff together and I said what is it going to mean in agriculture as compared to everyone else.

You could tell beforehand, before it was even passed what it was going to mean in agriculture. We had the first Gramm-Rudman cut this year, Mrs. Lawrence, and of all domestic spending that was cut, of all of the domestic spending that was cut under Gramm-Rudman, do you know what percent came out of agriculture?

Mrs. LAWRENCE. The largest percent.

Senator HARKIN. 20 percent.

Mrs. LAWRENCE. We were hit very hard and we will be even worse next year if we do not meet the budget mark.

Senator HARKIN. You see, that is why I would like to hear you and others who come up here for confirmation to the Department of Agriculture for policy positions.

When you mention balancing the budget, do not just focus on sewer and water programs or—I have not even gotten into rural housing yet, I am about to—programs like that, but you might want to say, you know, we do need to balance the budget, and I am hopeful that the Department of Defense would make some cuts, too. Do you think we ought to make some cuts over there, Mrs. Lawrence?

Mrs. LAWRENCE. I think that the waste and abuse should be cut, but I believe the President's position on a strong defense policy——

Senator HARKIN. So you do not think there should be any cuts in the Defense Department?

Mrs. LAWRENCE. I think what fat is there should be cut but I do not think we should cut the programs that we need for a strong defense.

Senator HARKIN. Is there any fat that you know of that we should go after?

Mrs. LAWRENCE. No, I am not an expert on the Defense Department, sir.

Senator HARKIN. But you think we should cut the Sewer and Water Program.

Let me ask you about rural housing. Tell me about the Rural Housing Program.

Mrs. LAWRENCE. The Rural Housing Program?

Senator HARKIN. Yes, single and multifamily housing.

Mrs. LAWRENCE. The single and multifamily housing program is an interesting one to talk to you about, because it was one that was definitely scheduled to be zeroed out in the administration's budget last year. The Congress worked its will. We still have a housing program and it is being vigorously administered.

Senator HARKIN. How much has the cut been? What is the level of the——

Mrs. LAWRENCE. The level of housing in the next year's administration budget proposal is zero.

Senator HARKIN. That is right.

Mrs. LAWRENCE. All of these programs that have been recommended for zeroing out are nonfarm programs. When the Department of Agriculture got its mark from OMB, the bottom line that we had to reach, the decision was made by the Secretary and by his sub-Cabinet that the most important programs in the Department of Agriculture were the farm programs. So rather than cut the farm programs further, the decision was made to cut the nonfarm programs, and that hurts Farmers Home tremendously because a good three of the four divisions in Farmers Home are nonfarm programs, the Community Facilities Program and the Housing Program.

It was a difficult decision. It was agonized over. It was debated. And my predecessor debated within the inner councils of the Department of Agriculture, as did all the other Assistant and Under Secretaries, for their programs. But when the decision was made, we backed what the administration wanted to do.

I guess what I am saying, Senator, is that we do fight for our programs until the point where a decision is made, like any team, like your staff. I assume, maybe incorrectly, but I suspect not, that when you throw out ideas to your staff and you bat them back and

forth, you debate them. But when you finally make a decision about where you want to be on something, your staff says yes, sir, and they follow your directions. That is very much like it is in our Department with our Secretary and the executive branch with the President.

We fight for what we believe is right, and when we prevail, that is terrific. When we do not prevail, we support the program of the administration and we wait for another day.

Senator HARKIN. Did I understand you to just say that because of budget constraints, that your Department decided that it was most important to continue the Price Support Program for farmers, continue the farm program at the expense of these rural development programs?

Mrs. LAWRENCE. That was the decision that the Congress made in the farm bill.

Senator HARKIN. I disagree. No, we put these things back in. We put back in sewer, and water, and B&I, and rural housing, sewer and water programs; we said we did not agree with that. We said they were important.

Mrs. LAWRENCE. Well, they were in the farm bill. The decision that the best thing for the constituents of the Department of Agriculture was to keep the farm economy as strong as we could under current circumstances, and the decision was made to support the farm programs.

Senator HARKIN. At the expense of these programs.

Mrs. LAWRENCE. Well, the expense had to come somewhere. It either had to come from the farm program—it had to come from somewhere, Senator. We are in a sum-zero game. The pie just does not stretch any further. Now, how we divvy up the pie is part of the budget process, and I will work with you and with the other Members of the Senate and the House on that budget process, but the pie just will not expand any more.

Senator HARKIN. What does your Department recommend for next year for rural housing programs?

Mrs. LAWRENCE. The decision came back at zero funding for the housing programs, both multifamily and single family.

Senator HARKIN. I cannot hear you.

Mrs. LAWRENCE. Both multifamily and single family, zero budget.

Senator HARKIN. But I want to know what did your Department recommend for next year?

Mrs. LAWRENCE. The Department recommended zero.

Senator HARKIN. You recommended zero.

Mrs. LAWRENCE. The Department recommended zero.

Senator Harkin. I want to know what you recommended.

Mrs. LAWRENCE. I did not make a recommendation. I was not involved in that recommendation process.

Senator HARKIN. The Department recommended zero. And they recommended zero on what; rural housing?

Mrs. LAWRENCE. Rural housing and rural community development.

Senator HARKIN. How about the B&I Loan Program?

Mrs. LAWRENCE. And the B&I Loan Program.

Senator HARKIN. The Department recommended zeroing out all of those?

Mrs. LAWRENCE. Yes.

Senator HARKIN. So; would you say the Department feels that their constituency does not involve the people who live in small towns?

Mrs. LAWRENCE. No, on the contrary. We are very concerned about small towns and rural communities. As a matter of fact, just a couple of weeks ago I asked Secretary Lyng if he would please reconstitute the National Advisory Committee on Rural Development and he agreed to do that and we are in the process of rechartering that.

In the last 2 months, I have been meeting on a regular basis with people in other departments—Commerce, the Appalachian Regional Commission, SBA, and the Labor Department—on problems that face rural America where they have impact and experience, to see if we can work together to solve these problems at a time when we just do not have enough money for everything. Maybe there are some things that we can help State and local governments do to pick up what we are not doing. We all agree that——

Senator HARKIN. Just keep cutting it out of small towns. Again, your position you are up here for is not to be the Under Secretary for Farm Programs, you are to be the Under Secretary for Small Community and Rural Development.

Mrs. LAWRENCE. Right.

Senator HARKIN. Again, I would like to see some fire there on behalf of small towns and communities, and I do not detect any. I find that you are saying that you just go along with the decision made that the Price Support Program has to be kept sacrosanct and that we have to continue the Farm Program, that we have to balance the budget and so therefore we have to make these cuts in these programs. I had hoped when I came here today to hear perhaps something else.

Mr. Chairman, I do not mean to belabor this. I only have two other points that I want to go over.

You said that you are going to make the interest buydown work. How are you going to make it work?

Mrs. LAWRENCE. Well, Farmers Home is working with private-sector lenders, the Farm Credit Administration, and the Farm Credit System to explain, educate, and train their employees as well as ours as to how it can work.

The Approved Lender Program has been expanded. It has been a great success. We have cut back on redtape, paperwork, and forms, so that the banks and the Farm Credit System can use their own forms.

Furthermore, we are working with private sector lenders to cut down paperwork to the bare minimum so that Farmers Home can turn around these guarantees and these interest buy-downs as quickly as possible. We do occasionally make mistakes, and when we know we make them, we try to fix them. This was the case in the interest buy-down regulations. We found that the balloons, due to a technicality, could not be made. As soon as we realized that it was not working, I turned to Vance Clark and I said it is not working, that is not what the Congress intended—I was there during the debate and I know what the Congress intended—and we are changing the regulations and that is exactly what is being done.

Senator HARKIN. Last Saturday, the senior Senator from Iowa announced that there would be a change in these regulations. That was last Saturday. When can we expect those changes?

Mrs. LAWRENCE. They have cleared the Department. They are in the clearance process at the Office of Management and Budget and we should have them within a month, if not sooner.

Senator HARKIN. Are you changing the 7-year amortization rule?

Mrs. LAWRENCE. We are going to allow 7-year amortization with the balloon and an extension for 15 more years.

Senator HARKIN. And we can expect that how soon?

Mrs. LAWRENCE. As soon as the technicalities of clearing the regulations and getting them published takes place, but within 30 days.

Senator HARKIN. How much money is in the Direct Loan Program now?

Mrs. LAWRENCE. We only have about $20 million left.

Senator HARKIN. That is where I got that figure, $20 million. A lot of States are out, even though we have a backlog of farmers who show they can cash flow. Why do you not want to shift money from the Guarantee Loan Program to the Direct Loan Program, the Operating Loan Program, which can be done?

Mrs. LAWRENCE. Well, there are a couple of reasons. I guess the most important reason to me, Senator, is that the Guarantee Program for a long time has been on the books but really has not been pursued. It was not successful, and there are a lot of good reasons why bankers and farmers did not want to use it.

We think we have eliminated those hindrances, and we believe that the Guarantee Program is the Farm Operating Credit Program of the future. At the rate we are expending moneys in the Guarantee Program, the money will last through this fiscal year. We are expending about $8 million a day in guarantees averaged out over the course of the last month.

Lending will slow down in the June and July period. But we have got the winter wheat period that we have got to lend out of this fiscal year's money. For that we need guaranteed money in conjunction with the interest buydown and the Operation Assist Program. If we transfer, I cannot be sure that we will have enough money to cover the winter wheat lending. This is my primary concern.

No. 2, while the budget authority is the same, it changes the outlays. While we outlay dollar for dollar on the direct fund, we end up outlaying maybe 15 percent on the guaranteed funds.

When I argued before the Cabinet to transfer the $700 million into the Direct Lending Program—and there is an example, Senator—I believed that money was needed, and I successfully argued before the Cabinet council for that transfer. I was the one who made that argument and I was the one who fought OMB on it.

Senator HARKIN. Why do you not go back and argue for more, because I will tell you what is happening right now. Do you know why farmers are not using the Guarantee Loan Program? I will tell you why they are not using it, because of the interest rates.

We have farmers in Iowa who can cash-flow at the Direct Operating Loan Program. What is the interest rate now? You tell me. Seven?

Mrs. LAWRENCE. No, no. In Farmers Home, the Direct Operating Loan Program is eight.

Senator HARKIN. Eight percent.

Mrs. LAWRENCE. With an interest buy-down, if the bank was at 12, they would end up paying the same rate as Farmers Home because they would have the 4-percent buy-down.

Senator HARKIN. Right now banks in Iowa are charging 12.5 or 13 percent interest rate on the Guarantee Loan Program and——

Mrs. LAWRENCE. But with the interest buy-down the farmer can cash-flow.

Senator HARKIN. But you are not getting the banks involved in there.

Mrs. LAWRENCE. We were not, because——

Senator HARKIN. It is not working well in Iowa, I am sorry, Mrs. Lawrence.

Mrs. LAWRENCE. But it was not working well because of that glitch in the balloon payment which we have now gotten rid of. I think it is only fair, Senator, that we give it a chance now that we have corrected it, to see if it works. I think the Interest Buy-Down Program will work. As of the middle of last week, we have in a combination of the interest buy-down and operation assist, $20 million in loans that ordinarily would have been direct Farmers Home loans that because of this program we marketed 357 loans to banks. Now, I do not know exactly how many of those are in Iowa, but given Iowa's track record on the Guarantee Program, I would imagine most of them are in Iowa.

Senator HARKIN. Twenty million dollars would not even cover half of Iowa.

The CHAIRMAN. Would you please yield one more time? Could you give me some idea how much longer you will be?

Senator HARKIN. Every time I ask a question, I find out some new things.

The CHAIRMAN. Well, I am going to stay here as long as you want.

Senator HARKIN. I will not be much longer.

The CHAIRMAN. OK. With the understanding, of course, that any Senator can and will file questions to be answered.

Senator HARKIN. I wish I had as much enthusiasm for the Buy-Down Program as the banks, but I do not know if they are going to be able to utilize that buy-down.

Mrs. LAWRENCE. The interesting——

Senator HARKIN. We have a Direct Loan Program now that we can shift money into. There is a backlog right now. Farmers show that at that interest rate they can cash-flow, and yet Farmers Home says they are out of money—out of money—out of money—we cannot shift any more money from the Guarantee Loan Program over because it is out. Yet in the last 3 or 4 weeks the President of Honduras came in and walked out of the White House with $180 million. There is another $100 million thing coming up here pretty soon in Congress. We have another $300 million for El Salvador. Lord knows how much more we have got for other foreign aid programs. There is a lot of money for that but we do not have any money to put in the Operating Program. So much for a balanced budget. I wish I shared your enthusiasm.

I hope that the regulations come out. I believe that the change on the 7-year balloon will help somewhat, but it is certainly not going to take up the slack that we have out there and the need that we have out there right now for direct operating loans.

Again, just to look at it and see how it operates the rest of the summer, I do not think you are going to find the banks that will do it because they are in such a tenuous situation right now. For them to write down a couple of percent, they are going to have the inspectors on it.

Mrs. LAWRENCE. When they write down a couple of percent, Senator, they have a 90-percent guarantee attached to it, the only thing the inspectors are going to look at is their exposure of 10 percent. All of the bank examiners and the Farm Credit Administration examining the Farm Credit System have agreed that they will not classify a loan with a Federal guarantee.

Senator HARKIN. It will help, as I said. I have been pushing for a change in that 7-year authorization, that regulation, too, for a long time and I am glad to see that it is being done.

The last area that I wanted to cover before I ended was—well, I wanted to get into the Rural Housing Program. We got into that slightly. I would like to get into it more. I want to just cover one other area and that is the B&I Program.

Do you believe in the concept of the Business and Industrial Loan Program?

Mrs. LAWRENCE. Yes; I do.

Senator HARKIN. Do you believe that we ought to continue it?

Mrs. LAWRENCE. No; I do not.

Senator HARKIN. You believe in the concept but we should not continue it. Would you explain that?

Mrs. LAWRENCE. I believe in the concept, but I do not believe that we need to continue it under Farmers Home and I do not——

Senator HARKIN. Where do you want to continue it?

Mrs. LAWRENCE. I would like to continue it in the private sector. I think that rural businesses will be able to get private sector lending now that was not available when the Business and Industry Program started.

The Business and Industry Program in Farmers Home has a mixed record. It has sustained incredible losses because the people in Farmers Home are under pressure to make some of those business and industry loans that perhaps should not have been made. We have a very bad track record in the Business and Industry Program.

Now, I was a small businessman and I know how hard it is to get capital when you need it and I am a supporter of small business. What is more, I think that the future of rural development is small business. Small business h created more jobs in rural areas than anything else in recent y rs, for that matter not just in rural areas but across the country. But the Business and Industry Program is one of those programs that if administered properly, will make good guarantees, and a lot of businesses that were started under B&I have been able to graduate to private sector lending.

Senator, I know we disagree on this, but it is just one more program, B&I, community facilities, water and sewer and housing, that a decision was made that if it had to be the Farmers Home

farmer programs or the Farmers Home Business and Industry Program, the decision was to go with the farmers programs.

There is room in the process for us to discuss that, for us to debate it, and if the Congress wishes it to be otherwise we will administer whatever the law is.

Senator HARKIN. I asked you if you believed in the concept and you said yes.

Mrs. LAWRENCE. I do believe in the concept.

Senator HARKIN. The concept of the B&I Loan Program is for the Government agency to be involved in providing long-term, low-interest loans for this purpose. And now you say you do not want that, so do you believe in the concept or do you not?

Mrs. LAWRENCE. I believe in the concept. What I also——

Senator HARKIN. With a Government agency being involved in it? That is what the B&I Loan Program is. It is not a private sector program.

Mrs. LAWRENCE. We have to keep separating the Direct Program and the Guarantee Program. It is the Guarantee Program that allows the private sector to do the funding. It is not Government funding. It is private sector funding, and the guarantee enables the private lender to make loans and when the bank examiners come in they do not as harshly judge that loan portfolio as they would otherwise.

I think Government guarantees in areas where private sector credit is not available is a good way to get private sector capital involved in rural communities. And I think the Business and Industry Guarantee Program has done a good job in that, and with all things being equal, if there were no funding and money and deficit problems in the United States, I do not think anybody would have gone after that program, but that is not the case. And when you put it in perspective and you say to me which is more important, the Direct Operating Loan Program or the B&I Program, I will have to tell you, I think the Direct Operating Loan Program is more important.

If you tell me whether the Guarantee Program or the Operating Loan Program is more important, I will tell you I think the Guarantee Program is more important.

Senator HARKIN. Than direct operating loans?

Mrs. LAWRENCE. Yes. I think that the Government——

Senator HARKIN. That tells me a lot.

What is the Lawrence Co.?

Mrs. LAWRENCE. It still is a legal entity. It is a company that did management consulting, campaign consulting, event management during the course of several years, some Government representation work. It no longer has any employees and it will at the end of this fiscal year probably be closed.

Senator HARKIN. I see that you are vice president and director from February 1983 to the present.

Mrs. LAWRENCE. That is right.

Senator HARKIN. Do you draw a salary from that company?

Mrs. LAWRENCE. I did at one time. I have not drawn a salary since I have been employed by the Federal Government.

Senator HARKIN. OK. Well, I am not going into the Rural Housing Program. Again, I just think, just to wind up my comments,

Mrs. Lawrence, I think that I hear different things. I hear still economic happy talk coming out of the administration, the Department of Agriculture, just like we did in 1984. There was no foundation to support it other than just some wistful hoping that somehow some things were going to get better. Farmers continue to be driven off their land. Small towns continue to have inadequate sewer and water. Our rural housing stock is dwindling and getting worse.

I hoped that we would have an advocate in this position, a strong advocate for rural towns and small communities. You have been there how long?

Mrs. LAWRENCE. Three years.

Senator HARKIN. You came in 1983.

Mrs. LAWRENCE. Yes, sir.

Senator HARKIN. Three years in the Department of Agriculture. Have you done much traveling around the United States?

Mrs. LAWRENCE. Yes, I have.

Senator HARKIN. Have you gone to small towns and communities?

Mrs. LAWRENCE. Yes, I have.

Senator HARKIN. Have you stayed there?

Mrs. LAWRENCE. Yes.

Senator HARKIN. When was the last time you were out in a small town? What State?

Mrs. LAWRENCE. I was in Illinois.

Senator HARKIN. When?

Mrs. LAWRENCE. This last February, I think, at a college addressing a group of businessmen, agribusinessmen who came in up in——

Senator HARKIN. You might have been in Des Moines, probably?

Mrs. LAWRENCE. Oh, no, no, no.

Senator HARKIN. You were in Cedar Rapids or where? What college?

Mrs. LAWRENCE. It was——

Senator HARKIN. You went there and gave a speech?

Mrs. LAWRENCE. Yes.

Senator HARKIN. And then left?

Mrs. LAWRENCE. I stayed. No, I stayed and toured the town with some of the folks from the college. I spent the night there and then I left. And I have been mostly to small towns as well as Des Moines, Kansas City, and cities like that, but I have been to small towns in Mississippi, and Kentucky, and——

Senator HARKIN. Kansas City is not a small town.

Mrs. LAWRENCE. I know. And neither is Des Moines. I am just saying I have been to big towns and I have been to small towns, too.

Senator, I suspect that if I am confirmed, maybe 1 year or 2 years from now you will be pleased to see that I am an advocate for rural America. I will do my best in the constraints that we have, if I get the opportunity to do so, to fight for rural America.

Senator HARKIN. Mrs. Lawrence, I have no doubt that you are a fine person. I have no doubt about that at all. I have no doubt, as I said, about your intellectual capability, your management capabili-

ties, your dedication to this administration and to serve this administration, and that is as it ought to be.

But I do question that this is the proper position for someone with your abilities, someone with your background, your attributes and all the qualifications that you have.

There are a lot of jobs in the Federal Government serving this administration, a lot of jobs even in the Department of Agriculture, but this is one in which I have a keen interest and one in which I feel very strongly about the background of the person having the judgment, the overall attitude, how they view what we are trying to do, comments about balancing budgets, doing it on the backs of small towns and communities, a lot of those things—there is a lot of meaning in those words, and so I have, as I said, no personal animosity at all. I hope you understand that. Understand that I do have respect for your abilities and such, but I would have hoped that the administration might have seen fit to use your abilities and your achievements in some other area of the administration.

Thank you, Mr. Chairman.

The CHAIRMAN. There being no further business to come before the committee, we are in recess.

Mrs. LAWRENCE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[Whereupon, at 12:28 p.m., the committee adjourned, subject to call of the Chair.]

COMMITTEE NOTE.—July 16, 1986, the nominations of Mrs. Lawrence and Messrs. Hineman, Gilles, and Beuley were reported to the Senate.

July 24, 1986, Messrs. Hineman and Gilles were confirmed by the Senate. August 11, 1986, Mr. Beuley was confirmed by the Senate. As of December 31, 1986, no Senate action has been taken on the nomination of Mrs. Lawrence.

APPENDIX

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Mr. Chairman, it is pleasure to make a few brief remarks on the nomination of Kalo Hineman as a Commissioner of the Commodity Futures Trading Commission (CFTC). I served as Kalo's sponsor for the appointment in 1981 and am pleased that Kalo has agreed to serve a second term on the CFTC.

Kalo is a Kansas cattleman and wheat farmer from Dighton, veterinarian, former State legislator and banker. He has made an enormous contribution as the first and only farmer ever to serve on the CFTC. He chaired an agricultural options advisory committee and was instrumental in the Commission's early activities to implement a pilot program in exchange-traded agricultural options. These instruments have the potential of becoming a valuable risk-management tool for the agricultural sector.

The success of that committee prompted Chairman Phillips to expand its mission to other agricultural issues. As chairman of the agricultural advisory committee at the CFTC Kalo provides a direct link to major farm organizations, users of commodities, exporters, processors, the cattle, pork and broiler industries as well as agricultural lenders.

BACKGROUND

Since 1947, Mr. Hineman has been a cattleman, rancher and wheat and milo farmer in Dighton, Kansas. He is co-owner with his son of Kalo Hineman Cattle Company and Hineman Partners, a farming company. From 1955 to December 1981, he was a director of First National Bank of Dighton; and from 1974 to December 1981, he was a member of the Kansas House of Representatives. Kalo is a member and past president of the Kansas Livestock Association, a member of the National Cattlemen's Association, the American Farm Bureau Federation and the National Association of Wheat Growers.

He is a 1943 graduate of Kansas State University where he received his DVM. He served in the U.S. Army, Veterinary Corps, as a captain and has served with the office of strategic services.

CONCLUSION

Mr. Chairman, Kalo Hineman has been an excellent Commissioner and has played an important role in communicating the role of futures trading in agriculture as well as representing the concerns that farmers tend to have regarding futures trading.

Kalo brings an important perspective to the CFTC on behalf of agriculture and in his 4 years of service has demonstrated the ability to be responsive to the agriculture community. Agriculture is fortunate to have a Commissioner on the CFTC of Kalo's caliber and I look forward to his continued service.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, the nominees who are appearing before the committee today bring with them records of distinguished service to the Nation.

Two of the nominees--Mr. Kalo Hineman and Dr. Kenneth Gilles--have, of course, been here before for nomination hearings. Based on their service, Mr. Hineman's reappointment as a Commissioner of the Commodity Futures Trading Commission and Dr. Gilles' appointment as an Assistant Secretary of Agriculture are richly deserved.

Too, the work of Mrs. Kathleen Lawrence in the area of farm credit is not unknown to the members of the committee. I think that Mrs. Lawrence will be an outstanding Under Secretary for Small Community and Rural Development. Mrs. Lawrence and Dr. Gilles have also been nominated by the President to serve as members of the board of directors of the Commodity Credit Corporation.

Mr. Robert Beuley, who has been nominated to be Inspector General of the Department of Agriculture, has worked for the Federal Government for over 25 years. Mr. Beuley's ability and energy will, I am certain, enable him to be a distinguished Inspector General.

I hope that we will have an expeditious hearing this morning and see the Senate confirm all four nominees before we recess next week. Of course, under the rules of the Senate, the Committee on Governmental Affairs must consider Mr. Beuley's nomination prior to the Senate's confirming him.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased to be here this morning as the Senate Agriculture Committee considers the nomination of Kalo A. Hineman to be a Commissioner of the Commodity Futures Trading Commission; Kathleen W. Lawrence to be Under Secretary of Agriculture for Small Community and Rural Development; Kenneth A. Gilles to be Assistant Secretary of Agriculture for Marketing and Inspection Services; and Robert W. Beuley to be the Inspector General of the Department of Agriculture.

These nominees will face unique challenges in their respective assignments. The agricultural sector of our Nation is faced with a serious crisis. It is my hope that these nominees will put the family farmer at the top of their priorities.

I have inspected the documents of all our nominees, and look forward to hearing their plans and goals for their respective positions.

Thank you, Mr. Chairman.

[Material concerning the nomination of Kalo Hineman:]

United States Office of Government Ethics,
Washington, D.C., June 4, 1986.

Honorable Jesse A. Helms
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Kalo A. Hineman, who has been nominated by President Reagan for the position of Commissioner, Commodity Futures Trading Commission.*

We have reviewed the report and have also obtained advice from the Commodity Futures Trading Commission concerning any possible conflict in light of the Commission's functions and the nominee's proposed duties. Attached to his report form you will find a letter from the General Counsel of the Commission outlining the steps Mr. Hineman took with regard to his financial interests upon his appointment to the Commission in 1981 and the steps he will continue to take should he be confirmed for a second term on the Commission. Based on these commitments, we believe that Mr. Hineman is in compliance with applicable laws and regulations governing conflicts of interests.

Sincerely,

David H. Martin, Director.

*Enclosures retained in Committee files.

Commodity Futures Trading Commission,
Washington, D.C., June 16, 1986.

Mr. David H. Martin, Director
Office of Government Ethics
Office of Personnel Management
1717 H Street, N.W., Suite 436
Washington, D.C. 20415

Attention: Bob Flynn, Chief, Agency Relations Branch

Dear Mr. Martin:

In accordance with the amendments to Section 201(b) of the Ethics in Government Act of 1978 (Act) contained in S. 461, I hereby supplement my financial disclosure report filed pursuant to Section 302(c) of the Act to disclose that since April 23, 1986, the date of my signing of my financial disclosure report, I have received the following additional income reportable pursuant to Section 202(a)(1)(A) of the Act: a total of $11,334.72 in Commodity Credit Corporation Agricultural Program Payments; and a total

of $750.00 in rental house income. I have received no additional honoraria reportable pursuant to Section 202(a)(1)(A) of the Act since April 23, 1986.

A copy of this letter has been sent to the Senate Committee on Agriculture, Nutrition, and Forestry which has presently scheduled my confirmation hearing for June 18, 1986.

Sincerely,

Kalo A. Hineman, Commissioner.

Commodity Futures Trading Commission,
Washington, D.C., May 28, 1986.

Mr. David H. Martin, Director
Office of Government Ethics
Office of Personnel Management
1717 H Street, N.W., Suite 436
Washington, D.C. 20415

Attention: Bob Flynn, Chief, Agency Relations Branch

Dear Mr. Martin:

In accordance with Section 203(c) of the Ethics in Government Act and Section 734.602(c), of Office of Personnel Management regulations, 5 C.F.R. S734.602(c), please find enclosed a copy of the financial disclosure report (SF278) filed on April 23, 1986 by Commissioner Kalo A. Hineman (Attachment A)*. I understand that Mr. Hineman is under consideration by the President for renomination to the position of Commissioner of the Commodity Futures Trading Commission. The Senate Committee on Agriculture, Nutrition, and Forestry will be considering Mr. Hineman's renomination.

I have reviewed and discussed the information contained in the attached report with Mr. Hineman. With respect to Mr. Hineman's own farm and cattle operation, Commission clearance was obtained on December 9, 1981 in accordance with Section 9(d) of the Commodity Exchange Act (the "Act"), 7 U.S.C. S 13(d), and 17 C.F.R. S140.735-4(b)(2), note 3.[1] See attached letters dated December 9, 1981 (Attachment B). As explained in his December 9, 1981

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*Retained in Committee files.

[1]At the time Commissioner Hineman took office in January, 1982, Section 9(d) provided, as it does today, that Commission members and employees are, with certain specified exceptions, prohibited from engaging in investment transactions in actual commodities. One exception to this bar that was then and is still in effect permits "a transaction in which [a Commission member or employee] buys an agricultural commodity or livestock for use in such person's own farming or ranching operations or sells an agricultural commodity which such person has produced in connection with such person's own farming or ranching operations [or] any transaction in which such person sells livestock owned by such person for at least three months." Section 9(d)(1) of the Act, 7 U.S.C. S 13(d)(1).

letter, Commissioner Hineman's son assumed primary management responsibility for the farming and cattle operations upon the Commissioner's 1981 confirmation. Attachment B at 1,2. However, the Commissioner continued to receive income from these operations as specified in that letter. Id. He agreed not to use the futures markets to hedge his farm and cattle operations. Commissioner Hineman has abided by the terms of this agreement since his initial appointment on January 12, 1982, and has agreed to continue to do so should he be renominated and confirmed.

Although not required by law to do so, Commissioner Hineman placed his interests in various other firms in trust upon his initial appointment in 1982. This was done in order to avoid even the appearance of a conflict of interest. Specifically, the following interests were placed in trust for his tenure as Commissioner: First National Bank of Dighton, Kansas; Lane County Feeders, Dighton, Kansas; Farmers Coop. Oil & Supply Co., Dighton, Kansas; Beeler Cooperative Exchange, Beeler, Kansas; Farmers Coop. Elevator, Dighton, Kansas; Garden City Coop., Inc., Garden City, Kansas; and the Federal Land Bank, Ness City, Kansas.

Under the terms of Commissioner Hineman's trust agreement regarding his stock in the First National Bank of Dighton and Lane County Feeders, any income earned from these stocks would be paid to a trust set up for the Commissioner's children. However, under the trust's terms Commissioner Hineman retained the power to direct the trustee to sell any or all of this stock, in which case the proceeds would be paid directly to him.

The terms of the trust agreements governing the Commissioner's coop and Federal Land Bank stock interests provide that Mr. Hineman will continue to receive patronage dividends and any regular dividend income from these stocks during his term of office.

At the end of his tenure as Commissioner, all of the above noted trust interests and any subsequent income will revert to Mr. Hineman's full control and benefit. Commissioner Hineman has abided by the foregoing trust arrangements and has agreed to continue to do so upon his renomination and appointment as Commissioner.

Finally, shortly before his initial appointment as Commissioner, Mr. Hineman established a trust for the oil leases on his farmland and his partnership interest in the oil and gas leases on the severed mineral interests owned by Hineman Bros. & Townsend. Those leases were primarily for three-year terms, and were, until early 1985, essentially non-producing. Although none of the leases constituted a conflict of interest, Commissioner Hineman decided to transfer his interest therein to a trustee who would have full management control, including the right to renegotiate the lease terms, as well as to agree to the amount of bonus, lease and production income. Commissioner Hineman agreed with the Commission's then General Counsel that he would continue to receive all bonus and lease income during his term of office. He further agreed that any production income that was earned would, under the terms of the trust, be paid to a trust established by

Mr. Hineman in 1975 for his children.[2] At the end of his tenure as Commissioner, the assets and any subsequent production income would revert to his full control and benefit. Commissioner Hineman has abided by this trust agreement during his tenure as Commissioner of the Commodity Futures Trading Commission.

Subsequent to Commissioner Hineman assuming office, Congress amended Section 9(d) of the Act in 1983 to provide an additional exemption from the prohibitions against investments in actual commodities, as follows:

> Such prohibition against any investment transaction in an actual commodity shall not apply to . . . a transaction entered into by a trustee of a trust established by such person over which such person exercises no control if such transaction is . . . a transaction for the lease of oil or gas or other mineral rights or interests owned by such person . . .

Section 9(d)(2) of the Act, 7 U.S.C. S 13(d)(2). As the terms of the Commissioner's oil lease and mineral trust fit squarely within the above amendment to Section 9(d), it is clear that this interest has to this date not presented a conflict of interest under the Act, or the Commission's Code of Conduct, 17 C.F.R. S140.735-1, et seq.

Commissioner Hineman recently informed me that he is willing to continue to abide by the terms of this trust with one minor change prompted by the fact that certain of the oil leases have within the past year given rise to the prospect of significant production income. Specifically, the Commissioner would like to leave full management over the leases in the hands of the trustee (including the right to agree to the amount of bonus, lease and production income), but he would like all production income that is earned while he is a Commissioner to be paid directly to him rather than to his children's trust. Nothing in Section 9(d) nor any other provision of the Act or the Commission's Code of Conduct prohibits such an arrangement.[3]

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[2]In this regard, Commissioner Hineman agreed to notify the General Counsel should circumstances change and these leases give rise to significant production income. The then General Counsel in turn agreed to consider this change of circumstances and to recommend an appropriate course of action.

[3]In this regard, I would note that the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry, which have recently considered the reauthorization of the Commodity Futures Trading Commission each reported out bills amending Section 9(d) of the Act, S. 2045 and H.R. 4613, respectively. Each of these amendments permit Commission members and employees to engage in investment transactions in actual commodities except those transactions which involve the use of nonpublic information; are effected by means of a Commission-regulated instrument; or are prohibited by rule or regulation of the Commission. Should these amendments be enacted, Mr. Hineman's receipt of production income would continue to pose no conflict of interest concerns, and, moreover, the above described arrangements concerning Mr. Hineman's cattle and farm operations and trust interests would be rendered unnecessary.

Finally, it is my view that Section 210 of the Ethics in Government Act, which limits the annual outside earned income of Presidential appointees to 15 percent of their federal salary, does not apply to the income that Commissioner Hineman has and will continue to receive: as a stockholder in K. Hineman Co., the Commissioner's cattle operation; as a farm owner and inactive partner in Hineman Partners, which operates his farm; and as a lessor with respect to the oil and gas leases on the Commissioner's farm land and partnership interest in the oil and gas leases on the severed mineral interests owned by Hineman Bros. & Townsend. I regard such income to be investment, rather than earned income, since the Commissioner has not and will not upon renomination take part in the management of these assets during his service as Commissioner.

In sum, I have determined that the information set forth in the enclosed report disclose no real or apparent conflict of interest under the Commission's Code of Conduct, 17 C.F.R. S 140.735-1, et seq., or under the Commodity Exchange Act, 7 U.S.C. S 1, et seq. (1982).

Sincerely,

Kenneth M. Raisler, General Counsel, and
Designated Agency Ethics Official.

Attachments.

[ATTACHMENT B]

Commodity Futures Trading Commission,
Washington, D.C., December 9, 1981.

Mr. Kalo A. Hineman
145 South 2nd.
Dighton, Kansas 67839

Dear Mr. Hineman:

This is to inform you that the Commission has granted clearance for your interest in your farming and cattle operations as detailed in your letter dated December 9, 1981. Please note that you may not hedge in the futures market in connection therewith.

Sincerely,

Dennis A. Dutterer, General Counsel.

Dighton, Kansas, December 9, 1981.

Dennis A. Dutterer
General Counsel
Commodity Futures Trading Commission
2033 K Street, N.W.
Washington, D.C. 20581

Dear Mr. Dutterer:

This is to request Commission clearance for farming and cattle operations which I own in Kansas. My farm consists of 2,720 acres

of agricultural land in Lane County, of which I am the sole owner of 2,400 acres and 320 acres of which I jointly own with my wife, Geneva Hineman. Hineman Partners, in which I am a 50 percent partner and my son, Donald J. Hineman, is a 50 percent partner and which operates my farm, also rents an additional 320 acres of farm land which is owned by my sister. The primary crops grown on the farm are wheat and milo. The grassland on my farm is cash leased to K. Hineman Co. for pasture.[4] The annual crop production consists of approximately 15,000 to 45,000 bushels of wheat and 0 to 20,000 bushels of milo. These crops are sold to local grain elevators and feed lots mostly by spot cash and sometimes by forward cash contracts. On assumption of office as a Commissioner of the Commodity Futures Trading Commission, my son would assume complete management of the farming operations, although from time to time he might consult with me with respect to particular decisions. However, I will continue to receive a landlord's share of the crop with respect to my farm land and my 50 percent share of Hineman Partners' tenant's share of the crop produced on my farm land, as well as on my sister's farm land which Hineman Partners also manages. We have not hedged in the futures market with respect to the farm nor do we presently intend to do so. Moreover, during my tenure as a Commissioner, I will not use the futures market to hedge the farm operation.

I also conduct a cattle operation along with my son doing business as the K. Hineman Co., Dighton, Kansas. I own 50 percent of the stock of K. Hineman Co. and my son owns the other 50 percent of the stock. In that operation, we both raise and purchase live cattle which are then grown on pastures on my farm and may be sold at that time or may be fattened in a commercial feed lot and sold to a packer. In addition, 1,600 acres of grassland leased by K. Hineman Co. is included in this operation. Each year we produce, grow, fatten and sell between 400 and 1,000 head of cattle. We own the cattle involved for a period exceeding three months. Once I assume office, my son will conduct the primary management responsibilities with respect to this operation, although I may be consulted from time to time with respect to certain decisions. However, I will continue to own my 50 percent stock interst in K. Hineman Co. and to receive my share of the income of the cattle operation. We have not used the futures market to hedge the cattle operation nor do we presently intend to do so. Furthermore, during my tenure as a Commissioner, I will not use the futures market to hedge this operation.

Upon assuming office as a Commissioner, I will avoid participating in official capacity in any particular matters directly involving my farming or cattle operations. I hereby request Commission clearance for my continued interest in the agricultural commodity and livestock transactions in connection with my farming and cattle operations.

Sincerely,

Kalo A. Hineman.

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[4] See paragraph two of this letter for a discussion of K. Hineman Co.

I would also note that another partnership of which I am a member, Hineman Bros. & Townsend (owned with my brothers and sister), also leases out the severed mineral interests which it owns.

BIOGRAPHICAL SKETCH OF KALO A. HINEMAN

Kalo A. Hineman was nominated as a Commissioner of the Commodity Futures Trading Commission by President Ronald Reagan on December 10, 1981; confirmed by the Senate on December 15, 1981; and formally sworn in on January 12, 1982, for a term expiring June 19, 1986.

Since 1947, Mr. Hineman has been a cattleman, rancher, wheat and milo farmer in Dighton, Kansas. He is co-owner with his son of Kalo Hineman Cattle Company and Hineman Partners, a farming company. From 1955 to December 1981, he was a Director of First National Bank of Dighton; and from 1974 to December 1981, he was a member of the Kansas House of Representatives.

Commissioner Hineman is a member of the Kansas Livestock Association (President, 1972), the National Cattlemen's Association (Member, Board of Directors, 1971-72), American Farm Bureau Federation, and the National Association of Wheat Growers.

Commissioner Hineman is a 1943 graduate of Kansas State University where he received his D.V.M. He served in the United States Army, Veterinary Corps, as a Captain in 1943-46. From March to October 1945, he also served with the Office of Strategic Services (OSS).

Commissioner Hineman is married, has four children, and resides in Alexandria, Virginia. He was born on March 4, 1922, in Dighton.

National Grain & Feed Association,
June 18, 1986.

The Honorable Jesse Helms
Chairman
Committee on Agriculture, Nutrition and Forestry
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The National Grain and Feed Association takes this opportunity to support the nomination of Kalo Hineman to a second term as a member of the Commodity Futures Trading Commission.

The National Grain and Feed Association is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex. Included in its membership are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of the grain and feed industry. The Association's membership is comprised of 1,200 companies and 43 affiliated state and regional grain and feed associations whose membership includes more than 10,000 grain and feed companies nationwide.

When he became a commissioner in 1982, Mr. Hineman perceived his task this way: "My wish is that my tour of duty as a CFTC commissioner will be paralleled by a substantial increase in the level of public understanding of and justifiable confidence in futures trading and futures trading markets." While this is an unending challenge, we believe Mr. Hineman has made major strides to attain this objective.

His background as a successful Kansas farmer and rancher -- combined with his knowledge of futures markets and futures trading and his ability to articulate that knowledge -- have given Commissioner Hineman a credibility and stature to communicate the value of futures markets to all sectors of agriculture, and to open new avenues for agricultural futures trading. He has been the driving force behind the commission's development of the successful pilot agricultural options program, serving as chairman of the CFTC's Agricultural Options Advisory Committee. At the same time, he has earned the well-deserved respect of the exchanges and nonagricultural sectors of the futures markets.

We believe Mr. Hineman's attributes are important assets to the CFTC as it launches into the next phase of its agricultural options trading program. The commission would benefit from Mr. Hineman's continued service, and we strongly support his nomination to a second term.

Sincerely yours,

Rich Pennell, Executive Vice President.

[Material relating to the nomination of Kenneth Gilles:]

United States Office of Government Ethics,
Washington, D.C., June 11, 1986.

Honorable Jesse A. Helms
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Kenneth A. Gilles*, who has been nominated by President Reagan for the position of Assistant Secretary of Agriculture for Marketing and Inspection Services and Member of the Board of Directors of the Commodity Credit Corporation.

We have reviewed the report and have also obtained advice from the Department of Agriculture concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Gilles is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

David H. Martin, Director.

*Enclosure. Retained in committee files.

U.S. Department of Agriculture,
Federal Grain Inspection Service,
Washington, D.C., June 16, 1986.

Honorable Jesse A. Helms
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On March 24, 1986, I submitted my SF 278, Financial Disclosure Report, required in connection with my nomination to serve as Assistant Secretary of Agriculture for Marketing and Inspection Services. That report contained all required financial information for calendar year 1985 and for the current calendar year through March 24, 1986.

The Ethics in Government Act of 1978, as amended, also requires that I update certain of the information reported on the SF 278, i.e., that required by section 202(a)(1)(A) of the Act, respecting income (other than dividends, interest, rents, and capital gains) and honoraria, to a date which occurs five days before the date of the hearing held by your Committee to consider my nomination. The hearing to be held on my nomination is presently scheduled for Wednesday, June 18, 1986. The purpose of this letter is to report that, as of June 13, 1986, I have received no such earned income or honoraria in addition to those categories and amounts of income shown on my Financial Disclosure Report as dated and filed on March 24, 1986.

I trust that this letter satisfies the additional applicable reporting requirements contained in the Ethics in Government Act.

Sincerely,

Kenneth A. Gilles, Administrator.

BIOGRAPHICAL SKETCH OF KENNETH A. GILLES

President Reagan appointed Ken as Administrator of the Federal Grain Inspection Service; the Senate confirmed him in June 1981. FGIS is an agency of the U.S. Department of Agriculture which was created in 1976, was formerly the Grain Division of the Agricultural Marketing Service (AMS), and, currently, receives about 85 percent of its revenues from user fees. FGIS is responsible for inspection of the quality and quantity of grain exported from the United States and for the monitoring of inspection within the domestic markets. Also, FGIS is responsible for development and application of standards to facilitate domestic and international trade in grain.

Ken, a native of Minnesota, graduated from the University of Minnesota with undergraduate training in Chemical Engineering and a Ph.D degree in Agricultural Biochemistry.

Following service on a cruiser in the U.S. Navy during World War II (1943-1946), he worked as a research engineer with the Pillsbury Company (1946-1948). Then he taught biochemistry at the University of Minnesota and became a research fellow working on cereal carbohydrates with Dr. Bill Geddes and Dr. Fred Smith.

In 1952, he joined the Fundamental Food Research Department at General Mills and worked on carbohydrates, lipids, proteins, enzymes, and experimental milling.

In 1961, Ken became Professor and Chairman of the Department of Cereal Chemistry and Technology at North Dakota State University; the department grew rapidly, and a new building and modern facilities were added. In 1969, Ken was the first person appointed to the position of Vice President for Agriculture at NDSU. During the next 12 years, the research and extension programs increased about fourfold, experiment station land holdings increased to 18,000 acres, and most of the crop acreage in the State was planted to cereal and oilseed varieties developed by the NDSU plant breeding team.

While at NDSU, Ken served as Editor-in-Chief of Cereal Chemistry, President of the American Association of Cereal Chemists, Chairman of the Great Plains Agricultural Council, Chairman of the Legislative Committee for the Land Grant Colleges, and was active in masonic programs.

National Grain & Feed Association,
June 18, 1986.

The Honorable Jesse Helms
Chairman
Committee on Agriculture, Nutrition and Forestry
U.S. Senate
Washington, D.C., 20510

Dear Mr. Chairman:

The National Grain and Feed Association takes this opportunity to support the nomination of Dr. Kenneth A. Gilles to be assistant secretary of agriculture for marketing and inspection services.

The National Grain and Feed Association is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex. Included in its membership are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of the grain and feed industry. The Association's membership is comprised of 1,200 companies and 43 affiliated state and regional grain and feed associations whose membership includes more than 10,000 grain and feed companies nationwide.

Since 1981, we have had the opportunity to observe and work closely with Dr. Gilles in his capacity as administrator of the Federal Grain Inspection Service. During that time, largely through his leadership, FGIS has been transformed into a cost-effective, capable, objective and responsive agency. FGIS today is a far leaner and more efficient agency, with a much clearer grasp of its mission and scope of activities. The U.S. official inspection and weighing system for grain is above reproach.

We believe Dr. Gilles' academic background -- gained during a distinguished career of more than 20 years as a cereal chemist,

researcher and vice president for agriculture at North Dakota State University -- have brought a new sense of professionalism to FGIS. This professional competence -- combined with his administrative skills, leadership qualities, firm but fair approach, and unquestioned integrity -- make Dr. Gilles an ideal nominee for the position of assistant secretary for marketing and inspection services.

We are pleased to heartily support the nomination.

Sincerely yours,

Rich Pennell, Executive Vice President.

[Material pertaining to the nomination of Kathleen Lawrence:]

United States Office of Government Ethics,
June 11, 1986.

Honorable Jesse A. Helms
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Kathleen W. Lawrence*, who has been nominated by President Reagan for the position of Under Secretary for Small Community and Rural Development, Department of Agriculture.

We have reviewed the report and have also obtained advice from the Department of Agriculture concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Ms. Lawrence is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

David H. Martin, Director.

*Enclosures retained in committee files.

Department of Agriculture,
Office of the Secretary,
Washington, D.C., June 16, 1986.

Honorable Jesse A. Helms
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On April 2, 1986, I submitted my SF 278, Financial Disclosure Report, required in connection with my nominations to serve as

Under Secretary of Agriculture for Small Community and Rural Development and as a Member of the Board of Directors of the Commodity Credit Corporation. That report contained all required financial information for calendar year 1985 and for the current calendar year through April 2, 1986.

The Ethics in Government Act of 1978, as amended, also requires that I update certain of the information reported on the SF 278, i.e., that required by section 202(a)(1)(A) of the Act, respecting income (other than dividends, interest, rents, and capital gains) and honoraria, to a date which occurs five days before the date of the hearing held by your Committee to consider my nomination. The hearing to be held on my nomination is presently scheduled for Wednesday, June 18, 1986. The purpose of this letter is to report that, as of June 13, 1986, I have received no such earned income or honoraria in addition to those categories and amounts of income shown on my Financial Disclosure Report as dated and filed on April 2, 1986.

I trust that this letter satisfies the additional applicable reporting requirements contained in the Ethics in Government Act.

Sincerely,

KATHLEEN W. LAWRENCE,
Deputy Under Secretary for Small
Community and Rural Development.

BIOGRAPHICAL SKETCH OF KATHLEEN W. LAWRENCE

Kathleen Lawrence was appointed Deputy Secretary of Agriculture for Small Community and Rural Development in May of 1984 and has been Acting Under Secretary since May 22, 1986. Mrs. Lawrence is responsible for general oversight of and policy development for the Farmers Home Administration, the Rural Electrification Administration and the Federal Crop Insurance Corporation.

In December 1984, she was appointed by the President to the Board of Directors of the Rural Telephone Bank.

Prior to assuming this post, Mrs. Lawrence served as Deputy Director of the Office of Rural Development Policy. In that capacity, she had the responsibility for the leadership and coordination of national, state and local rural development efforts through the identification of emerging issues and needs and the implementation of policy guidelines that seek to provide proper government program direction for service to rural America.

Mrs. Lawrence also had prior government experience as Staff Assistant to the President of the United States from 1969 to 1973.

Mrs. Lawrence has extensive experience in business and community affairs. Before joining the U.S. Department of Agriculture, she served as President and Chief Executive Officer of the Lawrence Company, a management consulting firm in Virginia that specialized in government relations, public policy and political affairs.

She has served on the executive committee of the American Cancer Society in Alexandria, Virginia; on the Corporation Board of the Alexandria Hospital; is a former vice president of the National Association of Women Business Owners and is a member of Executive Women in Government.

Born in New York, Mrs. Lawrence was educated there and in Virginia, where she resides with her husband, G. Andrew Lawrence. They have two grown daughters and a young son and are members of St. Mary's Church in Alexandria.

Department of Agriculture,
Office of the Secretary,
Washington, D.C., June 24, 1986.

Honorable Mark Andrews
United States Senate
Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Andrews:

This is in response to your questions for the record on the hearing on my nomination to be Under Secretary for Small Community and Rural Development.

The first question concerned the use of interim regulations to implement Section 1311 of the Food Security Act of 1985, which requires the election of two of the three members of Farmers Home Administration county committees.

Interim regulations are used sparingly by the Agencies for which this office is responsible and then only when called for by overriding public interest. In the case of the county committees, the interim regulation procedure was selected because one-third of the committee positions were expiring on June 30, and it was deemed imperative that continuity in the committee system be maintained. Otherwise, the Farmers Home Administration would have been faced with more than 2,000 committee vacancies in a year of great economic stress in the farming community, with the expectation of an unusually heavy volume of loan applications.

Delaying the committee elections, in addition, would have pushed the elections into a period that would have been unnecessarily disruptive to normal farming activities. A delay in the first election cycle also would have been disruptive to future election cycles and delayed the adoption of a coordinated and organized method of electing members in keeping with the mandates of P.L. 99-198.

Although the statute did not specify that the elections had to take place in 1986, the Farmers Home Administration made it a priority to hold them this year in order to permit public participation called for in the law at the earliest opportunity. The administrative problems involved in having to work under tight deadlines was outweighed by concern for ensuring the highest level of public service that could be provided in keeping with both the spirit and letter of the law.

For these reasons, and because the rule was not considered a major action under provisions of the Administrative Procedure Act, 5 U.S.C. 533, the Office of General Counsel determined that sufficient legal justification existed for use of the interim rule. Publication of an interim regulation does not, however, prohibit or otherwise hinder interested parties from commenting on the rule itself. All of the two dozen or so comments that have been received will be given full consideration in the development of a final rule.

Question two concerned the length of time required to publish the regulations after enactment of the Food Security Act. All efforts to prepare and publish the regulations in question were made in good faith as expeditiously as conditions would allow. The county election regulations were among almost 100 changes in Farmers Home Administration regulations that were made necessary by P.L. 99-198.

From early January to near the end of February, efforts were made to see if some arrangements might be made with the Agriculture Stabilization and Conservation Service to learn from the Agency's experience and to perhaps work out some kind of joint election process. Such a joint election proved not to be feasible, however, because of differing requirements and administrative needs of the two Agencies. Efforts to collaborate with ASCS were necessary to fulfill all obligations to contain costs and meet the dictates of Gramm-Rudman-Hollings. The 1985 elections cost ASCS more than $7 million, and, obviously, no effort to hold down costs for FmHA could be overlooked.

As for the publication of future regulations, let me assure you that I am committed to providing the public with reasonable opportunity to participate in rulemakings. For rules having substantial effect, comment periods on proposed regulations will be 30 days or more.

When an emergency or other good reason exists, however, it is Department policy to provide agencies with the flexibility to provide a period of less than 30 days. Regulations may also be issued on an interim or emergency basis, as with the county committee regulations, when the General Counsel determines the justification is legally sufficient.

Sincerely,

KATHLEEN W. LAWRENCE,
Under Secretary-Designate
for Small Community and Rural Development.

Department of Agriculture,
Office of the Secretary,
Washington, D.C., June 24, 1986.

Honorable Tom Harkin
United States Senate
Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Harkin:

I am pleased to respond to your follow-up questions from the hearing last week on my confirmation as Under Secretary for Small Community and Rural Development.

Questions 1 through 4: Queens College, 1960; 3 credits in history. University of Virginia, 1978; 3 credits in business law. Northern Virginia Community College, 1977 and 1980; 18 credits: 6 in economics, 6 in management and 6 in marketing. John F. Kennedy School of Government, 1985; non-credit certificate course for Senior Managers in Government, consisting of 120 hours of case studies and lectures in management, decision-making, cost benefit analysis, economics, personnel management and the budget process.

Question 5: The best and most relevant experience I have had in understanding rural communities, the problems they face and the potential solutions to those problems stems from my service in the Office or Rural Development Policy. Almost daily meetings with rural advocates, representatives of town, small city and county governments, a close working relationship with the National Advisory Council on Rural Development, representing the United States at OECD meetings on rural development and rural entrepreneurship and frequent briefings from the rural development division of the Economic Research Service all helped to educate me in the broadest sense of the word. What I learned was practical, not theoretical in nature.

Question 6: The reason I was recruited by the Department of Agriculture three years ago speaks specifically to your last question. The Department is staffed with thousands of rural Americans, former farmers and people who, while not actually engaged in agriculture, grew up around people who were. Every day these people work hard for their rural constituencies and will continue to do so. But an important link was needed -- the link that could transmit the Department's needs to others in the Executive Branch and be heard -- a link below the Cabinet level, but not too far below. That link also had to be able to work with the Members of Congress and their staffs, both on and off the Agriculture committees. That same link also had to be able to work with the private sector to sell Agriculture's message there. Due to my prior experience in public liaison and in the political arena and because I was known to have good management skills, I was selected to be that link.

My work with OMB, the policy staff at the White House, committee staffs, the staffs of individual Members and with individual farm groups shows that I was able to be the effective link my superiors were searching for. The fourteen years' experience I had in the ways of Washington prior to coming to the Department of Agriculture opened doors to me that would not have been opened to someone from rural America who did not have my experience. I was able and hope to continue to be able to use those open doors to benefit rural America.

I draw on the knowledge of all those around me who have "experienced" rural America in a way I have not. I will continue to learn from them. One of the great things about this country is that all kinds of folks from all kinds of places and with all kinds of backgrounds help manage our government. Basketball players and car dealers can become Members of Congress and a policeman's daughter can become Under Secretary of Agriculture.

Senator Harkin, I hope you and your colleagues in the Senate can agree that not everyone has to experience something first hand to understand it. When you speak to the farm groups whom I have briefed and who have briefed me, I know they will tell you that I am a sensitive, caring person; a person who listens and learns well.

Thank you for your consideration.

Sincerely,

KATHLEEN W. LAWRENCE,
Under Secretary-Designate
for Small Community and Rural Development.

THE FERTILIZER INSTITUTE,
1015 Eighteenth Street, N.W., Washington D.C., June 17, 1986.

The Honorable Jesse Helms
Chairman
Senate Committee on Agriculture
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

It is my pleasure to recommend Kathleen Lawrence for the position of Under Secretary, Small Community and Rural Development at the U.S. Department of Agriculture.

The Fertilizer Institute has had many dealings with Kathleen Lawrence over the past several years. Our industry knows her quite well and has always found Kathleen to be a person of great integrity, fairness, and understanding of the difficult problems that exist in American agriculture today.

Mr. Chairman, I believe Mrs. Lawrence will make an excellent Under Secretary of Agriculture. She has proven herself to be a true friend of the American farmer and has tried very hard to be helpful to farmers as they struggle through these difficult financial times.

Please let this letter show that Kathleen Lawrence has the fertilizer industries full support for this very responsible position in the Reagan Administration.

Sincerely,

Gary D. Myers, President.

National Association of Wheat Growers,
Washington, D.C. June 17, 1986.

Senator Jesse Helms
Chairman
Senate Agriculture Committee
328 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The National Association of Wheat Growers (NAWG) fully endorses President Reagan's nomination of Kathleen Lawrence for the position of Undersecretary of Agriculture for Small Community and Rural Development.

Mrs. Lawrence is well qualified for the position having been a policy maker for a number of years in USDA, most recently as Deputy Undersecretary for Small Community and Rural Development. We have worked closely with Mrs. Lawrence on a number of farm credit issues and feel strongly that she has an excellent grasp of the major issues confronting us all during this very difficult period. It is for these reasons that the NAWG fully supports the

nomination of Mrs. Lawrence and urges the Senate Agriculture Committee to act favorably on her nomination.

Sincerely,

Bud Leuthold, President.

National Corn Growers Association,
1015-15th Street, N.W., Washington, D.C., June 17, 1986.

The Honorable Jesse A. Helms
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

Our organization supports President Reagan's nomination of Kathleen W. Lawrence to be Under Secretary of Small Community and Rural Development of the U.S. Department of Agriculture. We believe that during her tenure as Deputy Under Secretary of Small Community and Rural Development, Mrs. Lawrence has gained the necessary appreciation, understanding and knowledge of requirements of credit and rural development programs to discharge responsibilities of the Under Secretary. Moreover, our organization has long urged Secretary of Agriculture Lyng to fill this critical position in the U.S. Department of Agriculture. And, in this regard, we urge your committee to recommend to the full Senate the confirmation of Mrs. Lawrence as Under Secretary of Small Community and Rural Development without any further delay.

With best regards,

Dain Friend, President.

National Cotton Council of America,
Washington, D.C., June 17, 1986.

The Honorable Jesse Helms
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

I am writing in support of Kathleen W. Lawrence for Under Secretary of Small Community and Rural Development of the United States Department of Agriculture.

As Deputy Under Secretary, Ms. Lawrence gained the necessary experience to perform the duties of the Under Secretary. Because of the importance of this position, I hope Ms. Lawrence will be confirmed as soon as possible.

If I can ever be of assistance, please don't hesitate to call.

Sincerely,

Earl W. Sears, Executive Vice President.

American Bankers Association,
Washington, D.C., June 4, 1986.

Senator Jesse Helms
Chairman
Senate Agriculture Committee
323 Russell Senate Office Building
Washington, D.C. 20510

Dear Chairman Helms:

This letter is written to support the nomination by President Reagan of Kathleen Lawrence to be Undersecretary of Agriculture for Small Community and Rural Development. At the American Bankers Association I've had the opportunity to work closely with Kathleen Lawrence during the past year and a half and during that time she has impressed me as a capable, hardworking, and dedicated person.

As an example, under the leadership of Kathleen Lawrence as Deputy Undersecretary, the Farmers Home Administration Guaranteed Loan Program has significantly expanded, moving from a program of less than $100 million in guarantees a year to over $1.1 billion in guarantees during fiscal year 1985. This shift from additional direct loans to guaranteed loans has been useful to farmers and lenders as they go through a major period of restructuring in the agricultural sector and has served to reduce direct government participation. Much of the success of the program can be attributed to Kathleen Lawrence.

Mr. Chairman, I look forward to working with you, your staff, and Kathleen Lawrence as the private and public sectors attempt to deal with the problems facing agriculture today. Please let me know if I can be of any further assistance.

Sincerely,

Rusty L. Jesser.

National Cattlemen's Association,
5420 South Quebec Street, Englewood, Colorado, June 17, 1986.

The Honorable Jesse Helms, Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

The National Cattlemen's Association would like to inform you of their support of the nomination of Ms. Kathleen Lawrence to fill the undersecretary position vacated by Frank Naylor. We have had the opportunity to work with Ms. Lawrence in the past and found her to be quite helpful and knowledgeable.

In a recent conversation with our Iowa affiliate she received a great deal of praise. Apparently, she was very instrumental in organizing a meeting between the Iowa Cattlemen Association, various other farm organizations and the Farmers Home Administration to ensure the loan guarantee program was working as well as possible. I think it is this type of special attention and

effort that will make her a very diligent and open undersecretary at the department of agriculture.

Thank you for acknowledging the recommendation, and we look forward to working with you and your committee in the near future.

Very truly yours,

Don Butler, President.

National Cooperative Business Association,
June 18, 1986.

Honorable Jesse A. Helms
402 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Helms:

The Senate Agriculture Committee is considering the confirmation of Kathleen W. Lawrence as Under Secretary for Small Community and Rural Development. I wish to indicate my support for her confirmation and urge the Committee to recommend her confirmation by the full Senate.

Ms. Lawrence is a very capable person who has the ability to provide leadership and direction in this very important position during this very critical time.

I served as State Director of the Farmers' Home Administration in Kansas for 8 years and know personally the importance of the agencies that will be under her office.

It is important that the Under Secretary position be filled in a timely manner. I urge the Committee to act quickly and support her nomination.

Sincerely,

E. Morgan Williams,
President and Chief Executive Officer.

Chugach Electric Association, Inc.,
Anchorage, Alaska, June 30, 1986.

Honorable Jesse A. Helms
Chairman, Committee on Agriculture
Nutrition, and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

Without reservation, Chugach Electric Association supports the confirmation of Kathleen W. Lawrence as Under Secretary of Agriculture for Small Community and Rural Development.

Chugach, an Alaska electric cooperative participating in programs of the Rural Electrification Act, does not ordinarily get involved in the Federal appointment process in Washington. However, we offer our unsolicited advocacy here because we have had first hand interaction with Ms. Lawrence. We have found her performance worth communicating to you.

On two occasions over the past several years, Ms. Lawrence assisted Chugach after matters of great importance to us became bogged down in the Federal bureaucracy. One instance involved an innovative financial accommodation with the Rural Electrification Administration to substantially reduce the revenue requirements from our consumers; the other involved an ERA loan that was being delayed even though all essential elements had been approved. In each case, Ms. Lawrence cut through red tape, determined our request had merit and expedited a resolution.

Ms. Lawrence's willingness to make time in her busy schedule to help one REA cooperative, and the proficiency she demonstrated, make her the kind of public servant we need in the high levels of our government. The members of our Alaska delegation -- Senator Stevens, Senator Murkowski and Congressman Don Young -- have dealt with Ms. Lawrence, and I know all three concur in our assessment.

Too often we who are affected by Government contact our elected officials only when we have a complaint. This letter is about a good performance. We request that our letter of support for Ms. Lawrence be made part of the Committee record, and that she be confirmed without delay. Should you or other members of the Committee wish, I would be happy to discuss this further.

Sincerely,

Joseph M. Fenwick, President,
Chugach Board of Directors.

[Material pertaining to the nomination of Robert Beuley:]

United States Office of Government Ethics,
Washington, D.C., June 11, 1986.

Honorable Jesse A. Helms
Chairman
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Robert W. Beuley*, who has been nominated by President Reagan for the position of Inspector General, Department of Agriculture.

We have reviewed the report and have also obtained advice from the Department of Agriculture concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe Mr. Beuley is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

David H. Martin, Director.

*Enclosure retained in committee files.

BIOGRAPHICAL SKETCH OF ROBERT W. BEULEY

He was selected Deputy Inspector General effective September 15, 1985, and currently serves with the Inspector General in managing and directing the Office of Inspector General investigative, audit and security activities conducted by over 800 employees in OIG, with seven regional offices throughout the nation and protectorates.

As Assistant Inspector General for Auditing at the Department of the Interior headquarters in Washington, he directed about 220 auditors in three U.S. regional offices and in overseas regional offices located in the Virgin Islands, Guam, and American Samoa.

He joined the Department of the Interior in January 1980 following an assignment in the Department of Commerce. At Commerce, he was the Assistant Director of the Financial, Administrative, and Automatic Data Processing Division in the Office of Inspector General.

Prior to that assignment, he was with OIG at the Department of Agriculture in three separate posts, serving as Director, Headquarters Division; Assistant Director, Policy and Resources; and Director, Agriculture, Economics and Departmental Administration Division.

Before going to Agriculture, he was Chief Auditor of the Office of Revenue Sharing in the Treasury Department of for 18 months and spent approximately 13 years in the U.S. Army Audit Agency, where he held various audit management positions in the headquarters and three district offices.

Mr. Beuley has an MBA in Management and a BS in Accounting. He is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA), and a Certified Information Systems Auditor (CISA). In 1984 he was selected by President Reagan to receive the rank of Meritorious Executive.

He has served on various committees with the Institute of Internal Auditors, Association of Government Accountants and the American Institute of Certified Public Accountants. He is a member of the Fraternal Order of Police and is the Chairman of the Prevention Committee of the President's Council on Integrity and Efficiency.

U.S. Department of Agriculture,
Office of Inspector General,
Washington, D.C., June 16, 1986.

Honorable Jesse A. Helms
Chairman
Committee on Agriculture, Nutrition
and Forestry
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On March 26, 1986, I submitted my SF 278, Financial Disclosure Report, required in connection with my nomination to serve as Inspector General of the Department of Agriculture. That report

contained all required financial information for calendar year 1985 and for the current calendar year through March 26, 1986.

The Ethics in Government Act of 1978, as amended, also requires that I update certain of the information reported on the SF 278, i.e., that required by section 202(a)(1)(A) of the Act, respecting income (other than dividends, interest, rents, and capital gains) and honoraria, to a date which occurs five days before the date of the hearing held by your Committee to consider my nomination. The hearing to be held on my nomination is presently scheduled for Wednesday, June 18, 1986. The purpose of this letter is to report that, as of June 13, 1986, I have received no such earned income or honoraria in addition to those categories and amounts of income shown on my Financial Disclosure Report as dated and filed on March 26, 1986.

I trust that this letter satisfies the additional applicable reporting requirements contained in the Ethics in Government Act.

Sincerely,

Robert W. Peuley, Deputy Inspector General.